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TAMPERE UNIVERSITY OF TECHNOLOGY

AMMAR SAIF

FROM CHINA TO VIETNAM – DRIVERS FOR RELOCATING FASHION MANUFACTURING

Master of Science thesis

Examiner: prof. Heikki Mattila
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ABSTRACT

AMMAR SAIF: From China to Vietnam – Drivers for Relocating Fashion Manufacturing
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Thesis topic was done to identify the factors contributing the relocation of textile and clothing industry from China to Vietnam. In last 25 years, dynamics of textile and clothing industry has changed dramatically and manufacturing moved from developed countries to the low-cost manufacturing countries. Textiles and clothing manufacturing is a highly labor oriented industry and labor cost is the basic criteria for its relocation. China emerged as the largest manufacturer of textiles and clothing globally. In recent times, labor wages have increased by many folds and labor is moving to other manufacturing industries due to better compliance and wages in China. Also, relocation of Textile and clothing industry within China is taking place, which will further affect the price and supply chain of textile products. After joining the WTO by Vietnam in 2007, textiles and clothing industry in Vietnam has seen fast and sustainable growth over these years and making it one of the top five garments producer. Export value of textiles and clothing industry is expected to increase and it is expected that in future Vietnam will be the second biggest producer of textiles and clothing products after China. Many countries including China are investing to produce Textiles and Clothing products and relocating T&C industry to Vietnam. Essential part of this research is to map down the factors, which contributes the relocation including political stability, tax factors, strategic factors, foreign direct investment, labor and transportation cost, government policies, infra-structure, workforce productivity, and inbound and outbound logistics At the end, future challenges and dynamics of global textile and clothing industry was discussed with respective to China and Vietnam, and recommendations were made to Finnish textile and clothing industry to benefit from this scenario.

PREFACE

I am finishing writing my thesis in July 2015 for waiting the sunny days and warm weather, which is waited whole year in Finland. Thanks to discussions with my uncles, which developed a passion for textiles and fashion in early teens of my life. Unconsciously, the passion for textiles, garments, and fashion influenced me to study textile sciences for higher studies. Later in final year of my B.Sc. (Hons) in Textile Sciences, I realized that I have good skills in sourcing and merchandising of textiles and garments. That realization proved right during my 5 years long career in the field of textiles merchandising, in which I got a chance to further improve my skills and knowledge in this field.

Coming to Finland to pursue the Master's studies in textiles and fashion was one of the best thing happened in my life. It opened new doors of knowledge and experiences which were hidden before. Thanks to Finland which opened my vision and provided a platform to learn and get experiences from multicultural environment.

I would like to thank Heikki Mattila for providing me with an interesting topic for my thesis. Thank you also for giving me advice and directing me to the right direction when I have wandered off to side tracks. I would like to address my thankfulness to Suomen Tekstiili ja Muoti (STJM) for granting scholarship to write thesis. I would also like to express my gratitude to Anna Nykänen for supporting me in study related matters. Final draft of my thesis would have never completed without the help of Dr. Waqar Hussain from Electrical and communications Engineering department.

Most importantly I am thankful to God and especially my parents and sisters Maleeha, Foqia and Zahra for their unconditional love and motivation for studies. I am grateful to my friends who were always there to support me in time of needs.

Tampere, 02.08.2015

Ammar Saif

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LIST OF SYMBOLS AND ABBREVIATIONS

T&C	Textiles and Clothing
T&G	Textiles and Garments
EU	European Union
USA	United States of America
FDI	Foreign Direct Investment
Bn	Billion
USD	United States Dollar
STJM	Suomen Tekstiili ja Muoti
VITAS	Vietnam Textile and Apparel Association
VINATEX	Vietnam Textile Garment Group
TNC	Thanh Cong Textile Garment Group
VND	Saigon Garments Manufacturing and Commerce Joint stock
EVE	Everpia Vietnam group
TPP	Trans-Pacific Partnership
EU-Vietnam FTA	EU-Vietnam Free Trade Agreement
FOB	Free on Board
ODM	Original Design Manufacturer
OBM	Original Brand Manufacturer
VND	Vietnamese Dollar
CMT	Cut Manufacture and Trim

1. INTRODUCTION

In this part of thesis, research background as well as research objectives and thesis structure is discussed. Research methodology is discussed at the end of this part.

1.1 Research Background

Apparel is one of the oldest and largest export industries in the world. Apparel production is the facilitator for the national development, and often it is the starter industry for countries engaged in export-oriented industrialization due to its low fixed costs and emphasized on labor intensive manufacturing.

Global fashion industry has been expanding at a rapid speed through the time. Fashion industry has experienced major shifts globally from Western Europe, USA and Japan to South Europe and Central Europe and China. In recent China, India and Bangladesh has emerged as the largest players in apparel manufacturing suppliers and China has the biggest share among all due to the continuous investments in apparel industry and cheap labor costs. Chinese industry has a growing interest of shifting to more high-tech products rather than to low profit and intensive labor oriented textile industry. Also Chinese apparel producers are transforming themselves from producer to brand manufacturer due to the involvement of higher profits and growing home fashion industry, beside these factors labor cost in China has also increased to three folds in its shore cities like Shanghai. All these factors are collectively resulting in shifting of apparel fashion industry to new markets for apparel production in-order to compete with rival brands and companies.

Some countries have taken benefit from the shifting trends of apparel manufacturing industry. Bangladesh, India, Sri Lanka, Cambodia and Vietnam are taking full ad-vantage of this trend and trying to grab the biggest share in apparel exports. Although Bangladesh and India are working excellent job and producing high quality products, but still they are not able to replace China in producing high fashion products. On the other hand Chinese industry owners are choosing nearby options for cheap labor, ease of travel and managing factory operations to overcome the issue of increased labor costs in China. This has resulted in more and more interest in some Far-East countries like Cambodia, Vietnam and Laos. The biggest advantage of shifting textile industry to Vietnam and Cambodia is the location, cheap labor costs, good infrastructure, high labor productivity and capability and ease of raw material availability from Hong-Kong, China and self-fabric manufacturing industry.

Vietnam has emerged as key player in apparel manufacturing supplier in last a few years. Vietnam has exported US$ 4.2 Billion to US$8.5 Billion and US$ 13 Billion, which is double in three years [39]. It is the result of high labor productivity and capability, continuous investment infrastructure by the Govt. of Vietnam and trade agreements to EU and USA. One of the key advantages of sourcing apparels from Vietnam is its capability of producing high fashion products which is same like China and capacity of handling small and medium sized orders which is unlikely not being easily accepted in China. These factors make Vietnam as the most favorable emerging markets for apparel and fashion manufacturing.

Vietnam is an emerging fashion supplier market gives a great opportunity to be explored by small and medium sized brands and importers and especially small sized markets. Scandinavia still imports highest share of apparels from China and due to low volume of orders, Scandinavian brands lacks in negotiation power and usually have to accept the terms of shipment and prices offered by the supplier in China. New emerging markets like Vietnam makes a great opportunity for Scandinavian brands and importers as they can gain power of negotiation for prices and volumes with the supplier in Vietnam and in return they can get high quality products with the higher quality of services. Also good infrastructure of transportation and seaports make it possible to get undisturbed shipments. One of the biggest advantages of working with Vietnam is the capability of Vietnamese supplier to communicate in English, which makes the supplier and buyer bringing on the same level of understanding for better communication, co-ordination and understandings.

All these aspects made me keen interested in new emerging markets for fashion and apparel manufacturing and especially Vietnam has performed extraordinarily among them. In this research work I will analyze the current situation of fashion and apparel manufacturing in China and Vietnam and compare costs, quality, services, infrastructure and capabilities of producing apparels oriented for Scandinavia especially Finland.

1.2 Research Problems and Objectives

The research environment of this thesis is limited to identify the reasons for relocation of fashion manufacturing from China to Vietnam. Increasing manufacturing cost in China has pushed garments brands and importers to find other markets to source garments. This situation brings many questions such as why other sourcing market, which market and what benefits it will bring it to the business. Handling sourcing process with a mature supplier in China is always an easy process, but a new sourcing market and significantly sourcing in Vietnam brings new challenges of why Vietnam, finding a new sup-plier, development of samples, price of garments, cost and lead-time of shipment, trade agreements and import laws. Although all above factors and processes in finding a new supplier and market are complex, but the focus of this study would help to identify Vietnam as an alternate to China for sourcing garments and accessories.

Specifically, goal of this study is to answer following research questions:

- What is the cost benefit for choosing Vietnam over China?
- What are the policies of Vietnamese government for textiles and garments industry?
- What are the dynamics and structure of textiles and garments industry in Vietnam?
- What are the effects of trade agreements of EU and USA with Vietnam and its effect on Vietnamese textiles and clothing industry?
- Competitiveness of strengths and weakness of textiles and garments industry in Vietnam?
- What are the shipping lead times from Vietnam to EU and Finland?
- What will be the future of textiles and garments industry in next 15 years?

The goal of this thesis is to map down the sourcing benefits of garments from Vietnam and improve the competitiveness of Finnish brands in terms of cost and negotiation capability.

1.3 Structure of the Study

Research methods to be used in this thesis would be excessively based on investment and data generated by various organizations in the world and especially Vietnam. The process of research for this thesis is shown below in Figure 1.

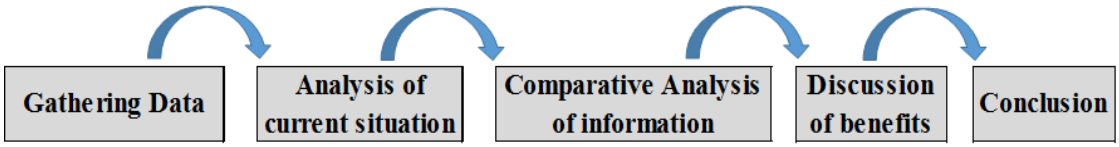

Figure 1. *Research Method of Thesis*

First of all, it is necessary to gather information about the economic and infrastructure environment of global & Vietnam's textiles and clothing industry. Then it is possible to create an image about the data and make an analysis. A selection of factors has to be made to keep the scope of thesis in focus. Comparative analysis of information is to be made based on data available. Discussion of benefits can only be made, once the comparative analysis has completed. Finally, conclusion of results has to be discussed.

The structure of thesis is based on above Figure 1. Global textile and garments trade is discussed in Chapter 2 as well as trends in value chain and challenges to the industry. It also includes the textile and clothing industry in Europe-28 (EU-28) and Finland. Litera-

ture review is discussed in Chapter 3, in which globalization and emerging market is discussed. Chapter 4 starts with analysis of the economic environment, law and trade policies, infrastructure, and textiles and garments (T&G) industry of Vietnam. At the end in chapter 5, the future of global textile industry with reference to Vietnam and China is discussed as well as benefits and recommendations to Finnish brands and importers, and conclusion is made by collecting the result of analysis made earlier.

1.4 Research Methodology

In the field of research, different research methodologies are used to analyze the data such as quantitative and qualitative approach, and inductive and deductive research approach. Data in this thesis is analyzed by applying a mix approach of qualitative and inductive research methodology. Vietnam has been taken as an emerging market for textiles and clothing sourcing and manufacturing. According to Luo, "entry strategies are important because they determine an MNE's investment environment, operation treatment, resource commitment and evolutionary path" [24]. Vietnam as an emerging market for textiles and garments manufacturing has been evaluated by evaluating as entering strategy for multinational enterprises (MNE's), and sourcing market for brands, and large importers. Qualitative and inductive approach was used to analyze many factors in Vietnam such as cost/tax factors, laws and regularities, performance, strategic factors, regulatory/economic factors, sociopolitical factors, transportation cost, labor costs, and government policies.

2. GLOBAL TEXTILE AND CLOTHING INDUSTRY: HISTORY, TRENDS AND FIGURES

The target of this part of thesis is to provide the overview of the global trade industry and global textile trade was discussed with the statistical data. Later the trends and challenges to global textile industry have been discussed. Also, the current situation of textiles and clothing industry is discussed with statistical data. In the end, an introduction to Finland with respect to trade, industry and infrastructure of transportation is given. Textile and Clothing industry has been an important industry of Finland throughout the industrial evolution in Finland. The brief history of Finnish textile and clothing industry was discusses and how it has evolved from 1800 to 2014 and what factors have effected to date. Later, the Finnish Textile and clothing industry is discussed from 2000 to 2014 in terms of imports and exports and important countries for the trade. In the end a brief introduction and role of Suomen Tekstiili & Muoti was discussed in Finnish Textile and clothing Industry.

2.1 Overview of Global Textile and Clothing Industry

Global population has recently reached the unbelievable figure of 7 Billion people. As food and clothing makes the essential part of life, so textile and clothing industry forms an important part of the way mankind deals with such a huge population. Due to its size, textile and clothing industry is the third major provider of employment in industrial sector after information technology and tourism. Global Textiles and Clothing industry (T&C) is facing huge problems for its sustainable growth and require global solutions to overcome its problems. The global textile industry has to match the pace of availability of materials, machinery, and performance in order to cope the growing challenges of its growth [1].

In order to predict the future, one has to study the growth and development made in the industrial sector in the past, especially since 1950. Growth of the industry in past years have brought the birth of new ideas regarding materials, manufacturing and processing technology and new products. The significant growth in sub-sectors of T&C industry are now entering a period of maturity [1].

There have been an enormous advancement in the last 60 years in science and technology of T&C industry. Advances in polymer chemistry and fiber forming techniques have resulted in evolution of man-made and polymer fibers during 1950s to 1980’s. This period led to the advancement in yarn technology for staple-yarns and texturing technology for multifilament synthetic yarns. These new high-performance synthetic fibers have pro-

vided the textile industry with an enormous number of possibilities to manufacture clothing and household products for certain different applications as compared with the natural fibers [1].

Beside synthetic yarn technology, new technological advancements were also made in fabric production of weaving, warp-knitting and nonwovens. Advancements in nonwoven technology has provided new applications in medical and hygienic products. Efforts in technological advancement have led the manufacturers to improve the functional properties of textile materials such as breathability, liquid repellence, anti-bacterial and flame retardant properties. Recently, there have been a progress in the field of smart/interactive textiles, as well as integration of micro-electronics and smart sensors embedded in textiles for different intelligent textile applications. Emerging technologies such as nanotechnology, plasma, microencapsulation and UV-curving technology have slowly found their way into manufacturing process of textile products [1].

The technological advancement in garment manufacturing has resulted in significant improvement of garment design and production speeds. The existence of low wages in many developing countries has winning edge over production in developed countries. Advancement in technology such as 3D body scanning, material flow systems, fabric cutting machinery, robotic handling of garment components, automated sewing techniques and alternative fabric joining have made a strong impact in modernizing the global T&C industry [1].

The timing of the economic change is always very important in the global trade. The visible change in the economics observed in T&C industry was observed starting from 1989 to 2008. This period witnessed the start of WTC negotiations and opening of the global trade with China. The share of the world population working in Capitalist economies grew from around 25% in 1990 to 70% in 2010. Asia was the main region incorporated into the capitalist economy with China being the single main country and Africa remained the region still largely outside the capitalist economy. 1989-2008 was considered for a fast deindustrialization in developed economies for textiles industry. Developed countries started focusing more on development, design and distribution, while manufacturing was shifted to lower cost producers such as Mediterranean and Asia. Since 2000, China and the Far East are dominating the manufacturing from fiber to the final product with the share almost 50% in all segments of production. Since 2003, there have been observed a gradual shift of export to the production for domestic markets [1].

2.2 Global Trade in Textile and Clothing:

The global textiles and garments industry makes an important part of world trade flows, predominantly for some developing and least developed countries where clothing accounts for a large proportion of total exports. In 2013, world exports of textiles were valued at USD 776 Billion of which textile valued at USD 306 Billion and of clothing at

USD 460 Billion, representing 1.7% & 2.5% respectively of total world merchandise trade [2]. Developing countries produced half of the world's textile ex-ports and nearly three-quarters of the world's clothing export [3].

Trade patterns in textiles and clothing are similar although textiles tends to be a capital-intensive business, while garments-making is labor-intensive and normally relies on a low cost workforce. For textiles, China is the biggest exporter with the share of USD 106.6 Billion (34.8% share) in global textile trade followed by EU-28 with USD 72.2 Billion (23.6% share) in global textile trade. However, India, Turkey and Pakistan are among the top exporters of textiles [2]. Overall, Asia lead the textile manufacturing and exports in 2013 with 47.6 % share in global textile export. The EU and USA were the biggest textile importers with USD 107 billion (38%) and USD 27 billion (15%) of global textile imports followed by China and Japan [2]. Leading exporters of textiles and clothing products in 2013 can be seen in Figure 2

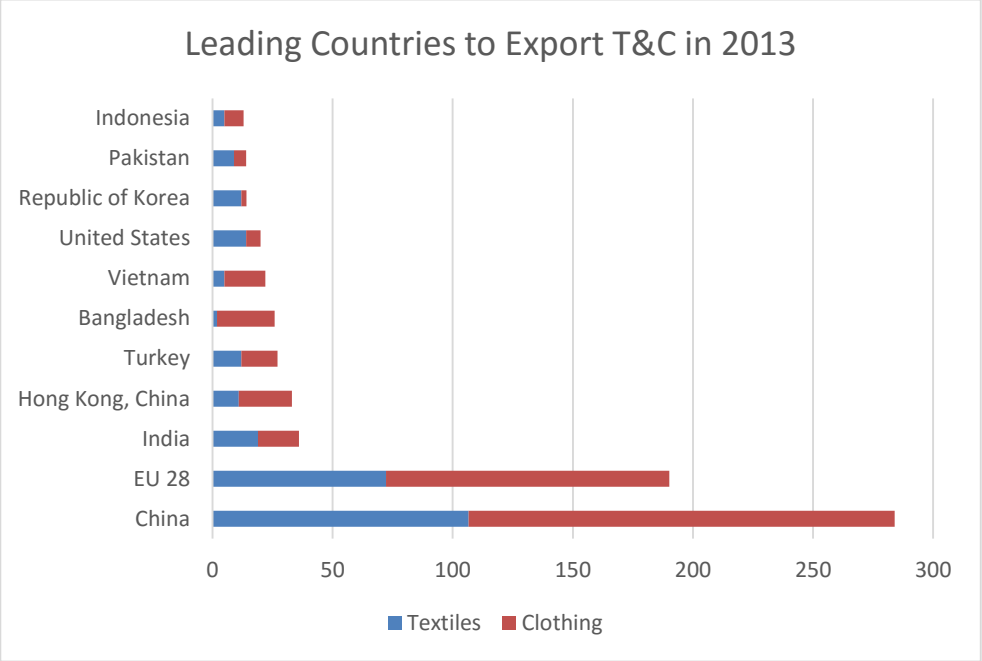

Figure 2. *Leading Countries to Export Textiles and Clothing in USD billion (Adapted from WTO, 2014)[2]*

Figure 3 shows the leading importer markets for clothing products globally. For clothing, China was again the biggest exporter with a value of USD 177.4 billion (38.6% share) followed by the EU 28 with a value of USD118 billion (25.7% share) in global clothing exports. Although all other countries lag far behind, but India, Turkey, Bangladesh and Vietnam were among the top exporters of clothing in 2013. EU-28 were the biggest importer of textiles with a value of USD 182 billion (39.6% share) and USA with a value of USD 91 billion (19.8% share) in global clothing imports followed by Japan, Canada and Russian Federation. Overall, Asia accounted for 59.4 % of world textile exports [2].

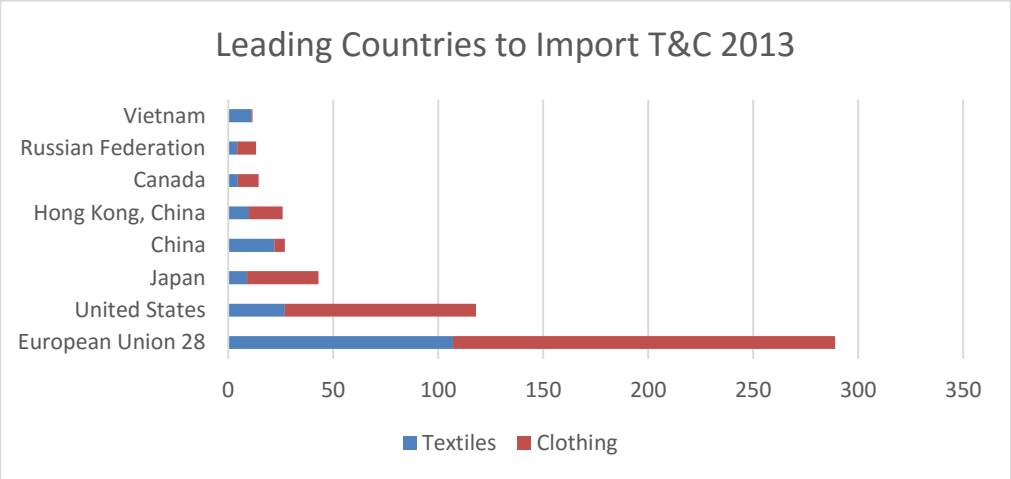

Figure 3. *Leading Countries to Import Textiles and Clothing 2013 USD billion (Adapted from WTO, 2014)[2]*

Table 1. *Global Textile Exports USD million 2000-2013 (Adapted from WTO, 2014)[2]*

Countries	Global Textiles Exports 2000-2013 in million USD			
	Year			
	2000	2011	2012	2013
China	16135	94411	95450	106578
EU28	56824	77137	63723	72150
Rest of the World	81825	122645	135020	127170
Total	154784	294193	294193	305898

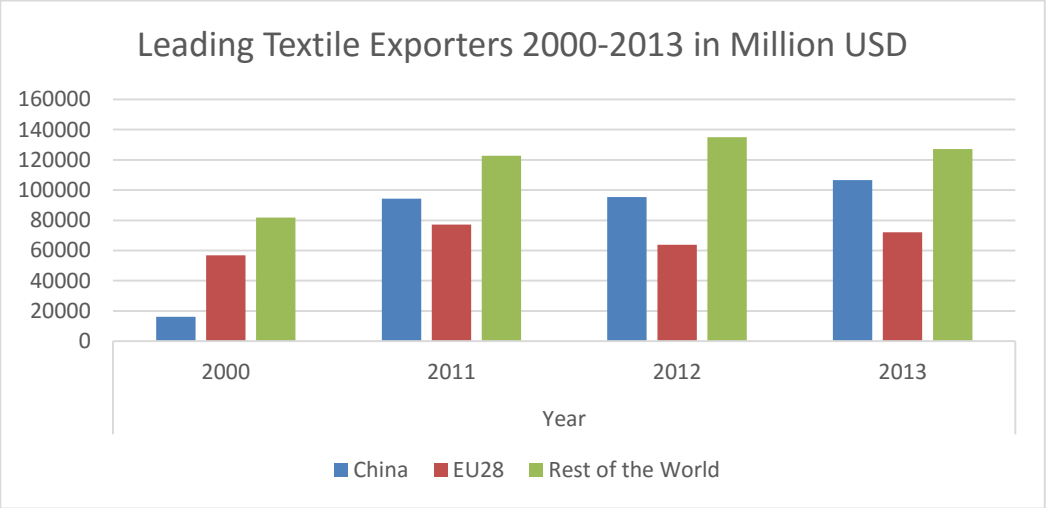

Figure 4. *Leading Textile Exporters 2000-2013 USD million (Adapted from WTO, 2014)[2]*

As it can be seen in Figure 4, global textile exports recorded for USD 154 billion in year 2000 and EU-28 was the largest exporter of textile with USD 56 billion followed by China with USD 16 billion. Gradually Chinese share in textile exports recorded an increased share and in 2013 China was leading the Global textile exports followed by EU [2].

Table 2. *Leading Clothing Exporters 2000-2013 (Adapted from WTO, 2014)[2]*

Countries	Global Clothing Export 2000-2013 in million USD			
	Year			
	2000	2011	2012	2013
China	36071	153774	159614	177435
EU 28	56709	117407	109841	117958
Bangladesh	5067	19214	19788	23501
Vietnam	1821	13149	14443	17230
Rest of the world	97967	114180	118887	124144
Total	197635	417724	422573	460268

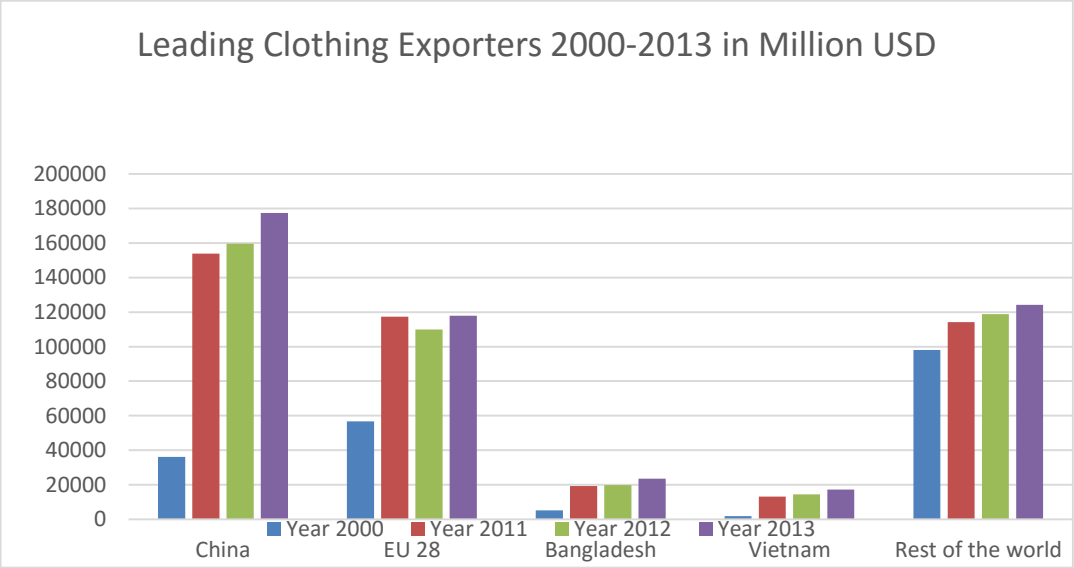

Figure 5. *Leading Clothing Exporters 2000-2013 (Adapted from WTO, 2014) [2]*

As shown in Figure 5 in year 2000 EU-28 was the largest clothing exporter with a value of USD 56 billion followed by China with a value of USD 3.6 billion in global clothing exports. In 2013, China was leading the global clothing exports with USD 177 billion followed by EU-28 with USD 117 billion. Bangladesh was the third largest country to export clothing and it showed a steady growth in this sector. However, it is interesting to note that Vietnam emerged as a strong exporter of clothing and its percentage of change in the value recorded a sharp growth with 18% from 2005-2013 and alone in 2013 the percentage of change in value was recorded at 19% [2].

Table 3. *Global Textiles imports 2000-2013 (Adapted from WTO, 2014)[2]*

Countries	Global Textiles Import 2000-2013 in million USD			
	Year			
	2000	2011	2012	2013
EU 28	73860	116720	102107	107495
United States	15985	25359	25956	27056
China	12832	18901	19810	21563
Vietnam	1379	8702	9075	10643

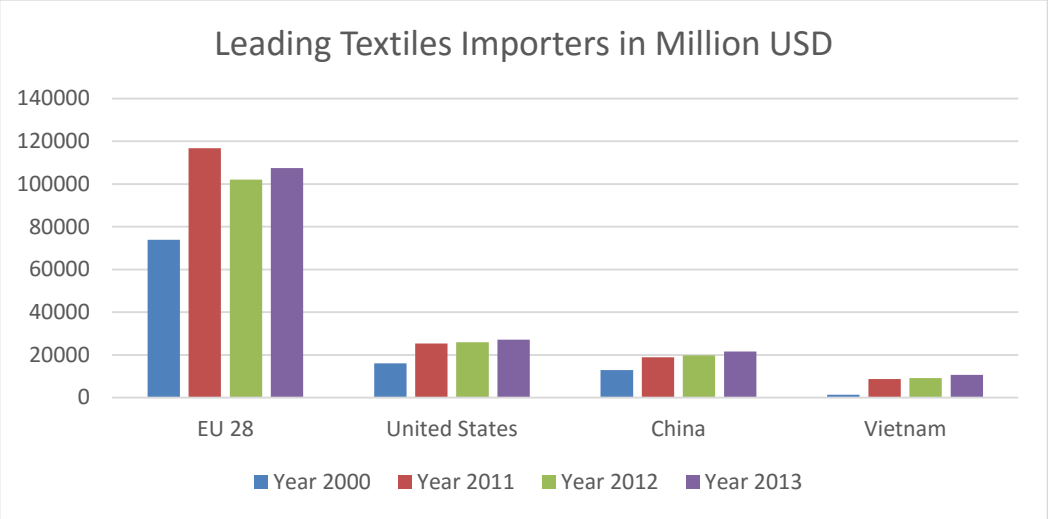

Figure 6. *Leading Textiles Importers 2000-2013 (Adapted from WTO, 2014)[2]*

As can be seen in Figure 6, Europe had been the largest importer of textiles throughout the period from 2000-2013. In 2013, EU-28 was the leading textiles imports with a value of USD 107 billion followed by USA with USD 27 billion. It is interesting to note that China and Vietnam has a continuous growth of increase in textiles import, this is mainly due to the increasing need of yarn and fabric for garments manufacturing [2].

Table 4. *Global Clothing Importers 2000-2013 in million USD (Adapted from WTO, 2014)[2]*

	Global Clothing Import 2000-2013 in million USD			
Countries	**Year**			
	2000	**2011**	**2012**	**2013**
EU 28	83459	191798	172333	182231
United States	67115	88584	87957	91028
Japan	19705	32945	33942	33632

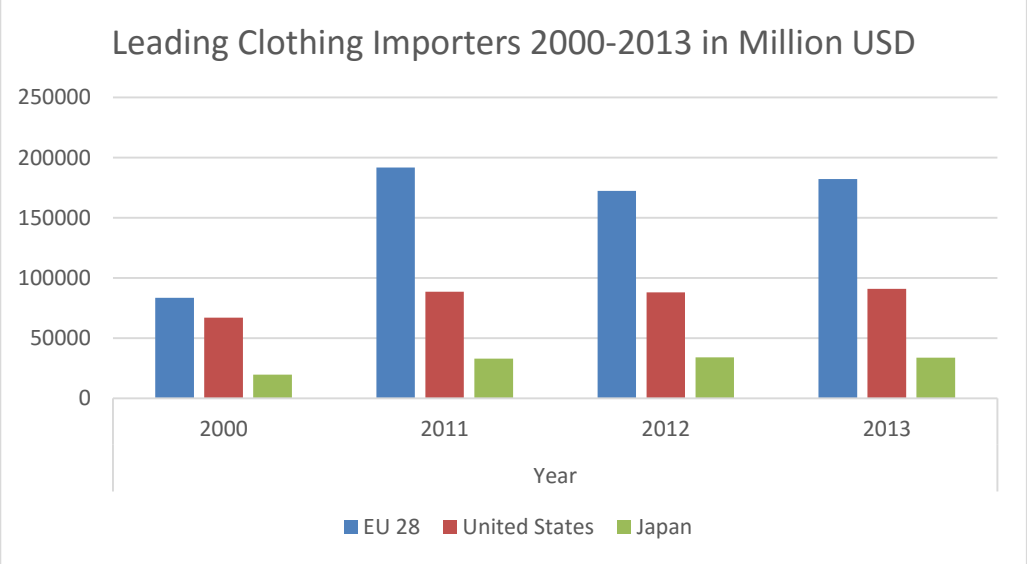

Figure 7. *Leading Clothing Importers 2000-2013 (Adapted from WTO, 2014)[2]*

As shown in Figure 7, EU-28 was the largest clothing importer in 2000 followed by USA and Japan in global clothing imports. Same trend was recorded in 2013 and EU-28 was leading the clothing imports with USD 182 billion [2].

2.3 Global Trends in Value Chains in Textiles and Clothing Industry

The value chain in textile and clothing industry includes raw material production through yarn spinning, fabric weaving, dyeing and finishing, garment sewing, trimming, labelling, washing, packaging and delivery. Several components of manufacturing to delivery was dispersed geographically and it involved a number of different partners. During the last decade several key trends in T&C industry have emerged, which have re-shaped the way industry is organized. Any industry has to assess the impact of these trends and act accordingly in order to compete with competitors [4].

2.3.1 Geographical Shifts

A continuous trend of relocation of textiles and garments industry was observed in past twenty years from developed countries to the low-cost producing countries and China leads this trend. China, Turkey, Bangladesh, India and Vietnam have recorded a continuous growth in textile and garments exports for 2000-2013. In 2013 EU-28 imported USD78 billion and USA USD 27 billion worth of textiles with annual percentage change of 5% and 7% respectively. Also EU-28 imported USD 182 billion and USA imported USD 91 billion worth of clothing in 2013 with the annual percentage change of 6% and 3% respectively. Chinese share of global textile exports were recorded at USD 10.4 billion in 2000 and rose to USD 106.6 billion in 2013 and its share in global textile exports stood at 34.8% with annual percentage change of 12%. Chinese share of clothing exports rose from USD 18.3 billion to USD 77.4 billion in 2013 with the share of 38.6% in global textile exports with annual percentage change of 11%. Asia recorded for almost three quarters of textiles and clothing exports in 2013. Many African countries are still struggling for the growth of T&C exports [2]

2.3.2 Transnational Corporations

Large international retailers have dominated the global textiles and garments industry and has great influence on value chain of T&C industry and they continuously influence the downward pressure on production prices due to the bargaining power. These US, Europe and Japan based firms need to import large volumes of products. These firms have a significant influence on shaping the T&C industry in developing countries [4].

2.3.3 Lean retailing

Large brands and retailers are increasingly concentrating on selling garments while moving the rest of supply chain activities to its suppliers, hence producing the concept of "lean retailing". This lean retailing has introduced the term of "full package" services. In upstream, the supplier takes the responsibility of sourcing fabric and trimming and downstream, it is responsible for logistics and transporting the ready goods to the retailers ware house or even stores. Retailers are minimizing the role of agents and doing direct business with manufacturers. Up to a certain limit, a supplier takes the responsibility of monitoring sales at retail outlets and manage stock replenishment. This demands a high level of integration, management systems and information technology to achieve retailer's demand [4].

2.3.4 Speed-to-market

Large retails and brands no longer practices to order products 10 months in advance, keeping large quantities of products in ware house and selling unsold products in end-of-

season sales for its season's offering. Now, brands and retailers keeps the record of its sales by using information and manage stocks based on product and retail stores efficiency of sales. Garments retailers like Zara, H&M have set new standards for fast turnovers in styles and fashion trends and this has led to the shorter life-spans. This new trend in selling products demands suppliers to respond quickly to a series of small and irregular orders. Manufacturing, logistic and supply chain has to respond quickly for the delivery of final products to the stores, in order to support replenishment stocks at the retail outlet. In order to meet the demand of buyer, suppliers needs to have efficient supply arrangements of raw materials and manufacturing [4].

2.4 Constraints and Challenges to the Global Textile and Clothing Industry:

30 years of extensive accumulation of T&C industry is moving into the period of intensive accumulation and it suggests to better use of resources for a sustainable growth of the industry. In future, a better use of social-cultural change, technological advancement have to be used in order to maximize the use of capital, raw material and human resources [1].

2.4.1 Finance and Economies:

The manufacturing in developed economies is not generating enough profits, so developed countries no longer relies on manufacturing but on services. The ageing population in EU requires more savings and spending on health expenditures, therefore, consumer power will move more rapidly towards developing countries like China, India etc. Thus the developing countries have now most of available industrial capital and they will tend to invest more in emerging countries for the T&C industry [1].

By 2020, 65% of the world population will be in Asia and it will compromise on low income (less than € 3500/year) and middle income (between €3500-€10,000/year), whereas, 15% of the world population will be represented by USA and Europe, which represents higher income group. This means there will be more population of middle class and purchasing power in Asia and Latin America. This will lead the large brands and retailers to focus more on developing countries for its sustainable business, selling and supply chain. This trend will be followed by the consumption of locally produced goods in same country of origin [1].

2.4.2 Fiber Gap

A growing problem for T&C industry is the growing gap of supply and demand in fibers. The global consumption of fibers was recorded approximately 67 million tons in 2008. Fiber consumption stood at 32 kg/head in USA, Turkish consumption stood at 10kg/head,

whereas Chinese and Indian consumption was recorded at 3-5kg/head. Global fiber consumption had been increasing at the rate of 7-10% a year between 2002 and 2007, with even more increase in consumption in developed countries due to the fast fashion. At current rate of consumption of fiber will make annual fiber consumption to 110 million tons in 2020 [1].

Textiles recycling stood at the bottom for recycling with 15-20% as compared to steel which is 80% recycled, 65% of paper and around 30% of plastic. Also, textiles require indirect input of 200 liters of water for manufacturing of 1 kg synthetic fiber and 8000 liters of water for one kg of cotton. Cotton requires irrigation and pesticides and it contributes to the over consumption of water and pollution of soil. The increase in demand and less availability of fibers will put the pressure on price and it will rise to € 1.60/kg to € 3/kg. Cotton will face competition with other crops, due to the increase in population and increasing demand to meet food requirements. Thus the increase in price of fiber will have an effect on final price of product. Finally, more focus and efforts has to be made on fiber recycling and more efficient synthetic fiber processing methods [1].

2.4.3 Productivity and skills shortage:

The demographic transition is completed in developed countries and developing countries like China and India are going through this transition due to the birth control and longer life expectancy. Chinese coastal areas are facing labor shortage in T&C industry due to wage increase and movement to other industries. This has led the Chinese T&C industry to move to rural areas within China to overcome labor shortage and higher wages and production costs. In Europe, more people are retiring in industries than new hiring and the less trend towards industrial skills in youth. There is growing potential in developing countries for technical textiles and clothing technology due to the increase in population and technical knowledge [1].

2.5 Textiles and Clothing Industry in Europe

Europe is home to the history's most important textile and fashion inventions and today's most successful manufactures in terms of use of infrastructure, management and technology practices. Europe is home to hundreds of world's leading retailers and brands, internationally renowned designers, researchers, entrepreneurs, and educators. Today, EU Textile and Clothing sector is mainly small and medium sized based industry with 90% of the industry employing less than 50 people [5].

Europe had a share of almost 25 % of global textile and clothing exports and 38% share in global textile imports in 2013 [2]. Clothing is a major sector of the European Textile and Clothing industry. European clothing industry manufacture Euros, jackets and trousers. European manufacturers produced Euro 80 Billion worth of Textiles and Euros 75.6

Billion worth of clothing in 2014, which was an increase from Euros 77.9 Billion of Textiles and 74.1 Euros Billion of clothing produced in 2013 [6]. EU apparel production by product group is shown in Figure 8 below

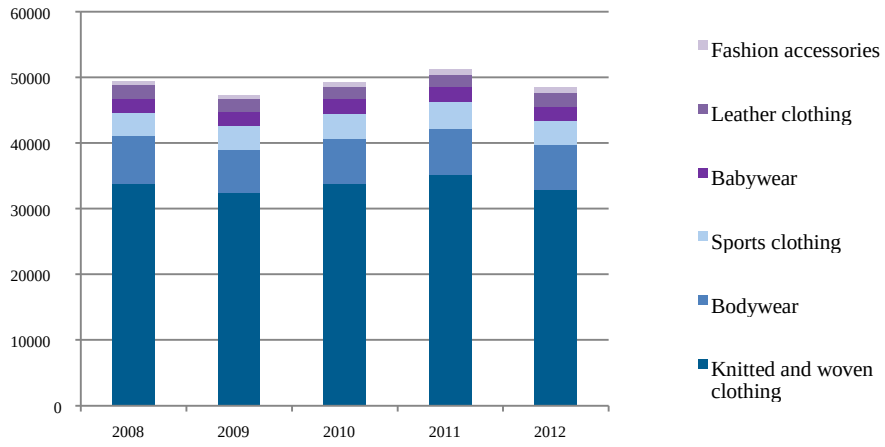

Figure 8. *EU apparel production by product group, in € million (Source CBI, 2014)[5]*

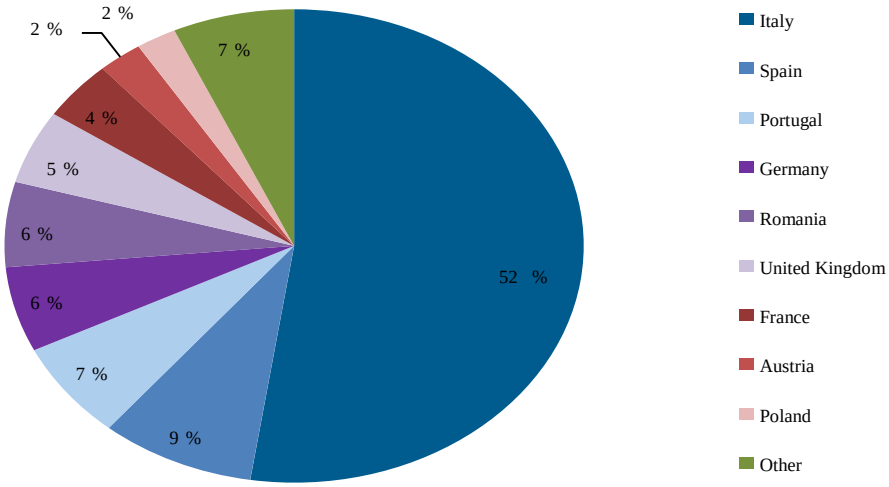

Figure 9. *European Apparel Production in 2013 (Source CBI, 2014)[5]*

As it can be seen in Figure 9, Italy was the largest exports of T&C products with 52% of total T&C exports of EU in 2013. Beside Italy, Spain and Portugal contributed with 9% and 7% share in European exports of T&C products.

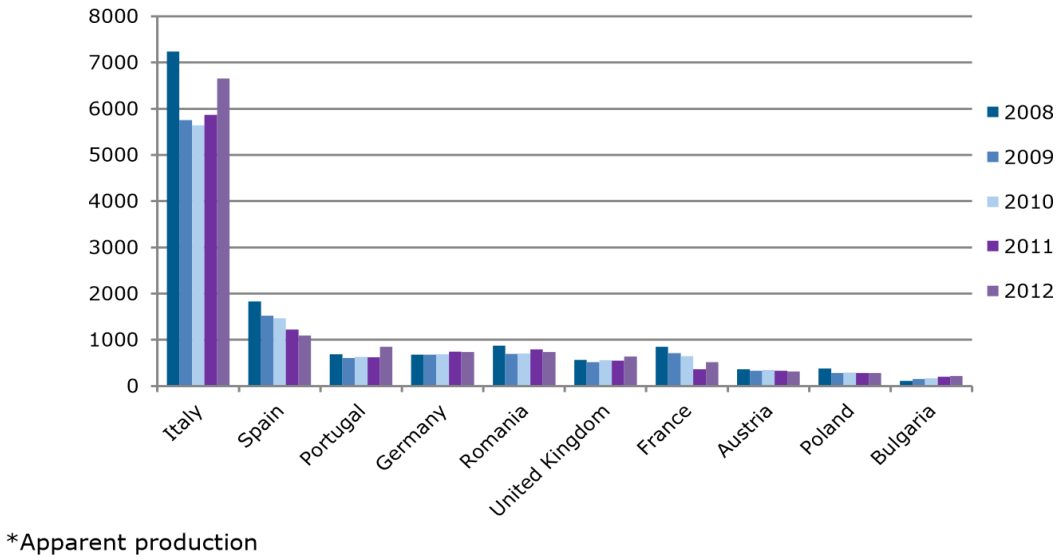

Figure 10. *European Apparel production 2008-2013 by Country in Euros million (Source CBI, 2014)[5]*

As shown in Figure 10, the largest producer of the apparel in Europe was led by Italy and followed by Spain, Portugal and Germany. Apparel production is declining in many of Europe's core producing counties with an exception of Portugal, Bulgaria and Croatia. Eastern European countries are becoming more important for providing short delivery times and qualified labor force [5].

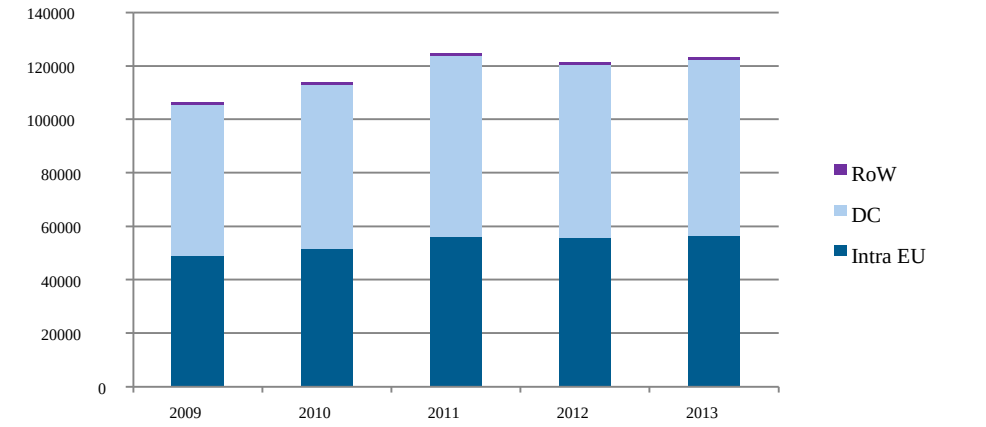

Figure 11. *European Imports of Clothing from 2009-2013 in million Euros (Source CBI, 2014)[5]*

European imports in period 2009 to 2013 are shown in Figure 11. Imports from developed countries (DC) was the largest clothing imports source in Europe followed by Intra EU

imports and rest of world (RoW) share was very small. China was the leading clothing exporters to Europe with Euros 26.61 billion followed by Bangladesh with Euros 9.794 billion and Turkey Euros 8.764 billion worth of products [6].

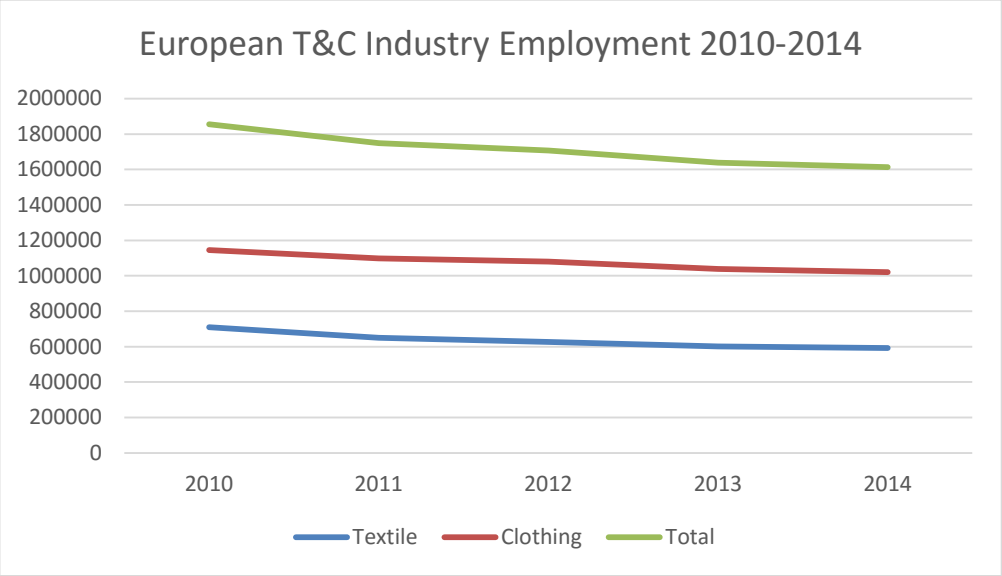

Figure 12. *European T&C Industry Employment 2010-2014 (Adapted from Euratex, 2014) [6][5]*

The employment of textile and clothing industry in Europe is shown above in Figure 12 Europe was a home to around 1.6 million people employed in Textile and Clothing industry. Employment in European T&C industry is gradually decreasing as the manufacturing is experiencing a trend towards low-cost producing countries [6].

Switzerland, Russia and USA were the main importers for the European Apparel industry and in 2014 Switzerland imported Euros 3.2 billion worth of products followed by Russia with Euros 3.11 billion and USA with Euros 2.27 billion worth of products [6].

It is worthy to note that textile and clothing imports were increasing in Europe and manufacturing was decreasing and in coming years more relocation of manufacturing of textiles and clothing will be experienced to further low-cost producing countries. The large brands and retailers have to focus more on off-shore manufacturing and sourcing of textiles and clothing for a sustainable business.

2.6 Introduction of Finland

Finland officially Republic of Finland is a Nordic Country located in Northern Europe. Finland share its border with Sweden in West, Norway in North, Russia in East, and Baltic Sea in South. Finland was the province of Sweden from 12th to 19th century and then incorporated into the Russian Empire as an autonomous Grand Duchy of Russia from 1809. It got complete independence from Russia in 1917 [7].

Capital: Helsinki

Official Language(s): Finnish, Swedish

Government: Parliamentary Republic

Area: 338,424 km2 [EU]

Population: 5 471 753 [9]

Currency: Euro (€)

GDP: €204 Billion [9]

Figure 13. *Map of Finland (Source CIA the World Fact book)[7]*

Finland is an EU member country since 1st January 1995 and Eurozone member since 1st January 1999. Finland is a highly industrialized country and largely free-market economy with per capita output income was €37,400 almost as high as Sweden, Belgium, Netherlands and Austria [10]. According to the official stats of 2014, from the working age (15-64) of which 68.3% were employed and unemployment stood at 8.7%. Services industry employed the highest number of labor force by 70.4%, 26.8% were associated with secondary production industry, and 2.9% were associated with primary production industry [9].

Table 5. *Imports and Exports of Finland (Adapted from Statistics Finland, 2014)[9]*

Imports, Exports and Trade Balance			
Year	**Imports**	**Exports**	**Trade balance**
	€ million	**€ million**	**€ million**
2000	36 837	49 484	12 647
2001	35 891	47 800	11 910
2002	35 611	47 245	11 634
2003	36 775	46 378	9 604
2004	40 730	48 917	8 187
2005	47 027	52 453	5 426
2006	55 253	61 489	6 237
2007	59 616	65 688	6 072
2008	62 402	65 580	3 178
2009	43 655	45 063	1 409
2010	51 899	52 439	539
2011	60 535	56 855	-3 680
2012	59 517	56 878	-2 639
2013	58 407	56 048	-2 359
2014*	57 608	55 829	-1 780

*Preliminary Data

According to 2014 estimates, Finland exports were recorded at €55, 829 million. As shown in the Table 5, Finland experienced a drastic shrinkage of imports from the earlier figure of €62, 402 million (2008) due to the recession, but it sustained in later years [9]. Finland main export commodities were:

- Chemical industry products
- Forest industry products
- Metal and metal products
- Machinery and equipment
- Electric and electronics industry products

Chemical industry and the forest industry products dominated the exports and accounted for 23.1% and 20% respectively of the total export volume and followed by the metal and metal products with 14.4% share, machinery and equipment products with 12.8% share and electric and electronics industry products 12% share in total exports [9].

The major Finland export partners in 2014 were:

- Germany
- Russia
- Sweden
- The Netherlands
- China
- USA
- UK

Finnish imports took a beating in imports from economic recession as well and its imports reduced to €57, 608 million in 2014 from €62, 402 million in 2008 [9].

In 2014 the major import commodities of Finland were:

- Chemical industry products
- Products from mining and quarrying
- Electric and electronics industry products
- Transport equipment
- Machinery and equipment

In terms of imports, chemical industry products dominated at 20.5% share, followed by products from mining and quarrying 16.5% share and electric and electronics industry products 12.6% share in total imports in 2014 [9].

Finland import partners in 2014 were:

- Germany
- Russia
- Sweden
- The Netherlands
- China
- USA
- UK

Foreign trade of Finland in 2014 by country group can be seen in Figure 14

Figure 14. *Foreign Trade of Finland by countries (Adopted from Statistics Finland, 2014)[9]*

Chemical industry played an important role in the Finland's trade in both imports and exports of the country followed by the forest industry and metal industry products in exports and mining and electric and electronics industry products in imports [9].

Finland had an excellent transport infrastructure and comprised of sea ports, air ports, railway line and highways. Jointly all these facilities were utilized by the cargo and passenger traffic. The largest container port in Finland were Port of Helsinki and Vuosaari Harbor located in Helsinki beside smaller ports in Kotka, Pori, Turku, Oulu, Rauma and Hamina. Helsinki and Turku also had passenger harbors which had connections to St. Petersburg, Tallinn, Mariehamn and Stockholm [11]. There were a total of 31 airports which facilitated the passenger flights and Helsinki-Vantaa International Airport was the largest in the country through which 15.9 million people travelled in 2014. Finnish airports are operated by Finavia [12]. Finnish Railway network was consisted of 5,944 km of railway track. In 2014, 68,3 million passengers made long distance journeys and same year 9275 tons-km freight was transported through railways network. Road Transport was the most common mode of transportation in Finland. In 2013, 353.7 million people travelled using the road transport system and 20,297 tons-km cargo was transported within Finland by using the road transport [9].

2.7 Brief History of Finnish Textile Industry

In essence, Finnish Textile industry can be said to have begun in early 1700s A.D in Turku. A small number of factories were operational and produced hosiery, knitted garments, silk ribbon as well as tents. However, the clothing can said to have started in early 1900s A.D [13].

2.7.1 Finlayson

The milestone in Finnish textile industry can be credited to the establishment of Finlayson in Tampere. James Finlayson, a Scottish machine engineer founded a cotton mill on the rapids of the Tammerkoski, which became one of the most significant textile companies in the country [13].

The factory was initially planned to produce and sell textile factory machines, but the business was not successful, so the factory started to produce cotton yarns and it rapidly got success in the business. In beginning, Finlayson was exporting all of the production to the Russia. Finlayson began to expand after the acquisition of the factory by a new owner in 1840 A.D and started producing machine woven fabric in new building and it was the one of the Finland's largest industry until 1920's [13].

Finlayson was significantly ahead to other factories in use of technology. Finlayson was the first factory in Finland to abandon the use of candle and lamp lights in its production halls, as cotton and linen were highly flammable and illuminated its halls with electric bulbs. In 1839, Finlayson launched the first fully mechanical looms and also it was the first enterprise in Finland to start the use of phone [13].

Finlayson was not only the factory, but it was the biggest job provider in Finland. It offered to its workers home, schools, hospital, fire brigade, police, church and reading rooms. This model of social services was later followed by many other companies later. Finlayson even developed its own currency in recession time in 1920's [13].

Finnish textile hundreds of years can be classified mainly in manufacturing of fibers, spinning, weaving of fabrics and manufacturing of garments. Production of textiles increased in 1920's and 1930's due to the increase in the wealth. Increase of the wealth changed the buying behaviors of the customers and the costumes were no longer ordered from the tailors to the extent, but was purchased directly from the stores. Mid 1900 saw the migration of the rural population to the urban areas for the attractive life and employment. The textile industry was the major provider of jobs to the women in industry [13].

Finnish textile industry encountered several impacts in whole century of 1900. Some of the impacts are as under

Recession: Finland was hit by the US recession, which had spread to the Western Europe and Nordic countries too. This recession led to the collapse of the exports and reduction of working factories. This resulted in reduction of working hours, lowered wages and labor strikes [13].

War: Civil war in Finland caused major problems for the Finnish textile industry. In 1918 production of textile industry suffered badly due to the absence of men, as young men went to war. World War II created uncertainty of economy, shortage of the raw material

and working force. Trade contracts got broken, output went mainly for the military use [13].

Technology Change: After the World War II companies could afford new employees and invested in acquiring new machines, which were more effective and expensive. The production of new machines increased by many folds. New machines meant the factories no longer needed a large workforce. This resulted in abandoning of the night shift, due to high performance of machines and labor force was laid off. Installation of electronic machines in 1970's further enhanced the machine performance and more stress was laid on labor skills, which led to the cooperation of industry with schools and universities and working hours were set to 40 hours/week [13].

Competition and Customs: Soviet Union had always been the Finland's most important trading partners, which had its own trade agreements. In 1960, Finland saw the export boom in textile with Soviet Union, European countries and USA which lead the Finland to join the EFTA. EFTA agreement resulted in reduction of tariff by 20-30% and as a result Finland's textile recorded the increase of textile exports up to 70%. But in early 1970's with the advent of EEC agreement with the developing countries resulted in availability of cheaper textile products. At that time Finnish companies could not compete in prices with the imported products which resulted in major strikes [13].

The Finnish textile and clothing industry reached its peak in 1980's. Some 50,000 people were employed in textile sector in those boom years. During the 1980's, Finland exported huge volumes of textiles and garments to the Russia in exchange for the oil. This lead to the shift of the Swedish textile industry to Finland. But the collapse of the Soviet Union and trade with Russia contracted and the subsequent recession finally finished the industry boom [14].

A big change took place in the industry of manufacturing and supply activities with joining the European Union in 1995. The number of employees in textile and apparel industry fell considerably as production operation moved to Estonia and other Asian countries [13].

Finland had not been successful in making its brand successful in the world, but there were some globally successful companies such as Marimekko, Seppälä, Halti, Marsh, Rukka, Reima, Finnkarelia, Nanso and Turo. These companies competes in the world for its design, technical sports, camping, work wear and quality. Finland had some technically well-known companies for its specialized materials and products like Ahlstrom and Metso Fabrics. Ahlstrom manufactured a variety of fiber based materials and Metso Fabrics produced paper machine clothing, filter fabrics, felts and dryer fabrics. Lindström was also a popular company in Finland which specialized in laundry of carpet cleaning services and special washing. Finnish Textile industry focused more on high-quality product design, technology demanding products with fast and flexible delivery [13].

Behind the Finnish textile industry, there has been a lot of work and its evolution has encountered various phases. Finnish textile industry has contributed significantly to society and economy of the country throughout the recessions, wars and changes in the society [13].

2.8 The Finnish Textile and Clothing Industry

In 2014, Finnish T&C industry exported 565 million Euros and imported 1942 million Euros worth of goods [15]. There were 125 member companies of Finnish textile and Clothing Industries Association which provided employment to 5095 people in 2011. A vast majority of companies (84%) were small and employed less than 50 persons and there were only 3 companies that employed over 250 workers. Finnish Textile and Clothing industry was mostly concentrated in South-Eastern Finland in terms of both number of employees and manufacturing units. In terms of both personnel and turnover, the Finnish Textile and Clothing industry is very small both on EU and Global scale. In the European Union, Italy had the largest textile industry, followed by Romania, Poland and Germany. Although Finnish T&C industry is very small in size and is very much import-oriented, thus it has a huge market potential for foreign T&C suppliers [16].

As shown in Figure 15, in 2012, different clothing goods were by far the most important for the T&C industry in terms of both imports and exports followed by the furnishing textiles, glass fiber and nonwoven products. Textile and clothing industry experienced a noticeable decline in the production volume from 2008 to 2014 [15]. In the meantime, production efficiency had improved and number of workers employed by the industry declined since 2008 [16].

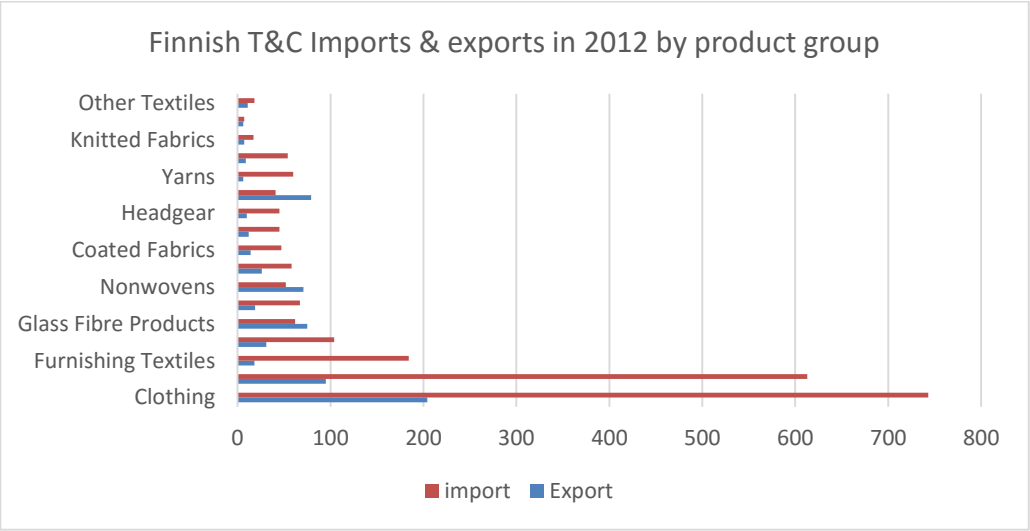

Figure 15. *Import and Export of Textiles and Clothing by product Group 2012 (Adapted from Finatex 2013)[16]*

Finnish trade in T&C products by year is shown below in Figure 16. The value of imports and exports of Finnish T&C experienced a declining trend in 2008, but gradually it saw an upward trend until 2011. It is clear from the Figure 16 that the global financial crisis had an effect on the Finnish T&C trade and T&C exports and imports declined in Finland.

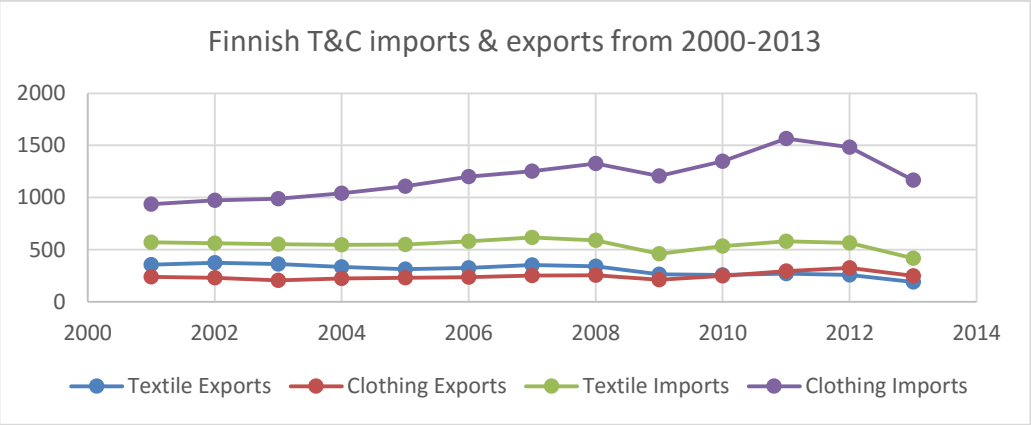

Figure 16. *Textile Import and Exports by Year (Adapted from Finatex 2013)[16]*

Exports of Finnish T&C products in 2014 are shown in Figure 17. Finland exported a total sum of Euros 565 million of T&C products, with the most important destination country being Russia with 23% share for Finnish exports followed by Sweden and Germany. Russia imported a total of Euros 129.95 million worth of T&C goods from Finland.

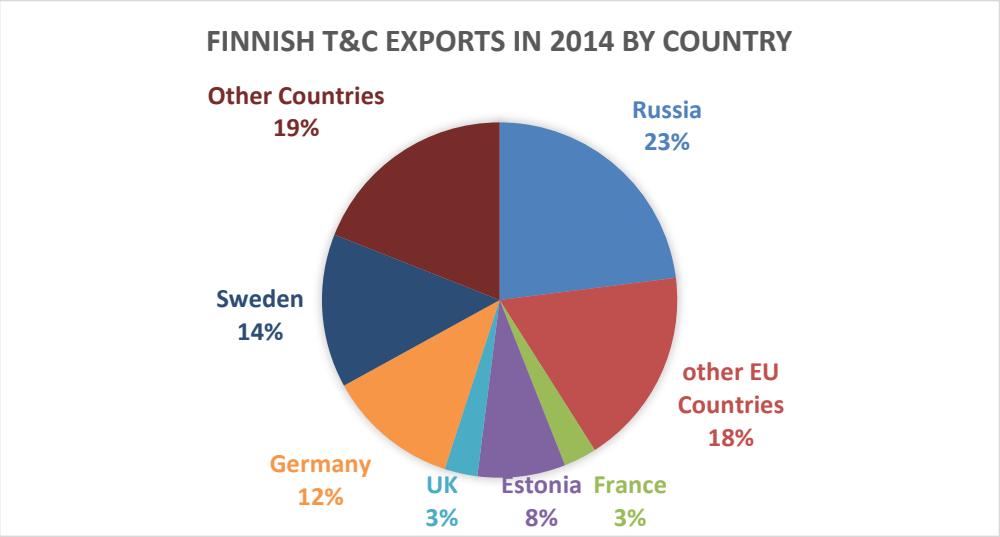

Figure 17. *Finnish export of Textiles and Clothing Industry in 2014 by country (Source Finatex 2014) [15]*

As shown in below Figure 18, in 2014, Finland imported a total of Euros 1942 million worth of T&C goods from the world and the most important source of imports was China with Euros 602 million of T&C goods with the share of 31% of total imports [15].

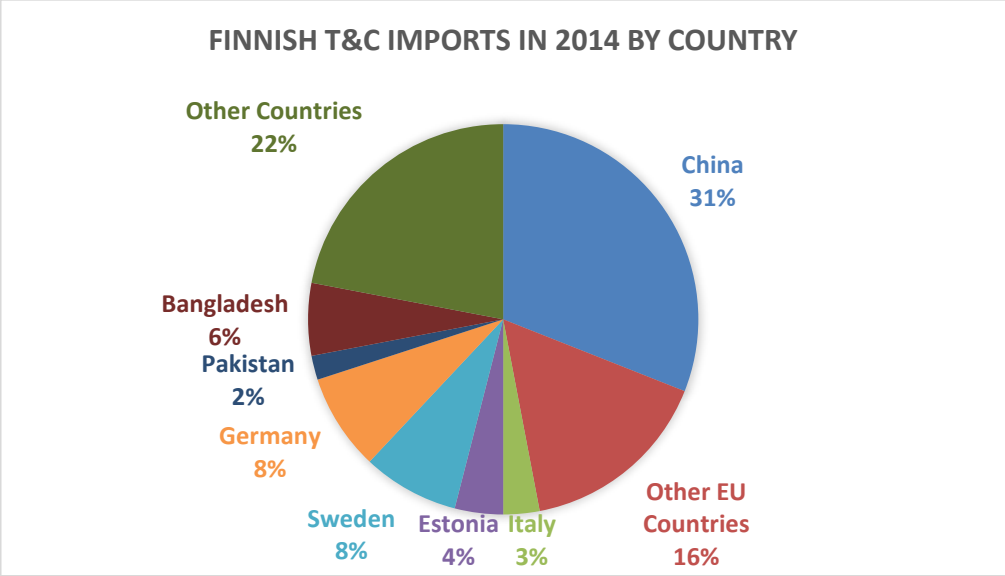

Figure 18. *Import of Textiles and Clothing 2014 (Source Finatex 2014)[15]*

Figure 16, shows the value of T&C imports and exports from 2000 to 2012. The liberalization of the Global Textile and Clothing market had no major impact on Finnish T&C imports and exports until 2005. In fact, imports recorded a growing trend until 2008. In 2008, the effect of global financial crisis is visible on overall T&C imports and exports. T&C imports and exports experienced a decline in the value from 2008 until 2010 and it recorded growth trend from 2010 to 2011 and again experienced a bump in 2012. The bump in exports was achieved by promoting and investing in research and development, studies and training of textile industry [16].

2.9 Finnish Textile and Fashion (Suomen Tekstiili & Muoti)

The mission of Finnish Textile and Fashion (STJM) is to improve the operations in the Textile and Clothing sector. It help its members to enhance its capabilities in order to compete in the global textile and clothing market. The Federation of Finnish Textile and Fashion also attempts to bring new business ideas, products and jobs in this sector. Finnish Textile and Fashion actively participates in labor market and policy issues of both Finland EU. It also actively participates in stake-holder participation and supports in research of Textile and Clothing studies through scholarships [17].

Finnish Textile and Fashion is a member of Confederation of Finnish Industries (EK) through Tekstiili- ja Lasialojen liitto TL ry. The other members of are Lasikeraaminen teollisuus LT ry, Suomen Lasitus- ja Hiomoliitto ry and Standardisoimisyhdistys TEVASTA ry (Standards Association of Textiles and Clothing Industry) [17].

3. SOURCING FROM EMERGING MARKET

With the increase in international trade competency and demand for better product quality with competent low cost "Global Sourcing" is fast becoming a prime strategy for the worldwide retailers and sellers. The core agenda of getting the supplies from different part of the world is to achieve the efficiencies of producing and trading the goods. While true motivation behind finding global sources was to be used a procurement tool of finding and getting low cost products, it has now become a vital and necessary ingredient of business policies of the global players. The popularity of global sourcing is well justified with the associated advantages for example having a pool of suppliers instead of one which can be relied upon for deliveries which makes it more time efficient. On the other hand it also gives you a chance to exploit and use full potential of expertise which might base on the location of manufacturers or suppliers. In this part of thesis, emerging market has been discussed and what steps are involved in the sourcing process, and what are the strategies for sourcing from emerging market?

3.1 Globalization

IMF the International Monitory Fund has well described globalization as "the increasing integration of economies around the world, particularly through the movement of goods, services, and capital across borders. It also refers to the movement of people (labor) and knowledge (technology) across international borders" [18]. Globalization sheds some light on the ever increasing dependencies of trade among countries, continents and regions. Global trade also triggers the transfer of intellectual wealth such as people, innovative ideas and business expertise of one place to other [19]. The regional shares in world exports have been described in Table 6

Table 6. *Regional Shares (%) of world exports 1980-2012 (Source Weinstein, 2005, p21, WTO 2011, and 2013)[22][20][21]*

Region	1980	1990	2000	2010	2012
North America	14.4	15.2	16.6	13.22	13.29
Latin America	5.4	4.3	5.6	3.87	4.19
Western Europe	40	47.6	38.4	-	-
Eastern Europe	7.7	3.0	4.3	-	-
EU 27	-	-	-	37.87	32.44
Africa	6.0	3.0	2.3	3.365	3.5
Middle East	10.5	3.9	4.1	6.16	7.2
Asia	15.9	23	28.7	31.53	31.59

Ever increasing shares of Asian countries and rising trade level of African and Middle Eastern countries is also a solid evidence of the shift in global trade. The share of world exports originating from Asia increased from 16 percent in 1980 to nearly 30 percent in 2000. The emergence of China as a world exporter has been especially dramatic. In 1978, China began opening its economy to world markets which led to increase the Chinese share of World's export increased from 0.9% in 1980 to 3.9% in 2000. Asia's rising importance in international trade has changed the centuries old trade pattern and it has transformed itself to the world economic gravity [22]. In 2013, China became the world's biggest merchandise trader with total import and exports of US$ 4,159 billion followed by USA with US$ 3,909, Germany with US$ 2,641 billion and Japan with US$ 1,548 billion [2].

Increasing intra-countries and continental trade have also helped to boost the efficiencies by achieving economies of scale, competence and splitting up of human expertise which allows the man power as well as economies to have a better focus on their competencies. Global markets have provided opportunity for the people to access larger markets, more capital, technology, cheaper imports and larger export market around the globe. Increased competition do not assures the benefits of adequate increased efficiency, so developing countries has to get the support from international community to embrace challenges [18].

According to Waters, "today, almost all huge business players and multinational companies have considerable businesses or partial operations handled outside the country of origin". There are several factors that encourage global operations. Cost difference is one of the main reason to move their manufacturing operations where it can be done least expensively. Growing demands in new and emerging markets can provide new opportunities of business to the companies. Companies can get benefit in sourcing from other markets, if local suppliers are not able to meet the demand. Similar products are being accepted in all markets, this allows the companies to sell same product in any country in the world and can expand the business. Removal of trade barriers and better logistics makes global trade easier. In addition, the improvement of infrastructure and communication means has helped to boost the trade in new markets [23].

3.2 Emerging Market Sourcing

International trade and markets are now heavily dependent and triggered by approx. 60,000 multinational enterprises known as MNEs around the globe. These multinational firms also carry more or less 800,000 subsidiaries working in different geographic locations. The main fuel for global expansion of MNEs are the foreign direct investments or FDI [24]. According to the estimates the size of global FDI has touched the considerable level of USD 1.45 trillion in 2013. The biggest chunk of FDI in the global market however were attracted by the developed and developing countries in Asia. The global share of FDI inflows in Asia has now attained 54 percent, and developing countries in Asia attracts more inward FDI than either the EU or the Unites States [25].

The success of most global sourcing exertions depends on how well they can be combined with the business strategy of the company. It is critical to identify and quantify the need for the global sourcing and then develop an inclusive sourcing strategy. Sourcing strategy determines, which item categories are furthermost appropriate for country or business that resides highly on low cost sourcing. According to Cavinato & Joseph. 2006, sourcing process from emerging market can usually be mapped down as follows:

- Identify latest and best most effective sourcing process.
- Scrutinize total expenses of every single category
- Produce and list down all crucial factors that are important for the analyses of already existing and future suppliers.
- Compute the cost delivered by the present suppliers.
- Ascertain prospective fresh suppliers and evaluate their capability to vitally come across the business requirements of the company, with achieving economies of scale on low cost.
- Cultivate a comprehensive international negotiation approach
- Develop and send demands for offer to existing and soon-to-be suppliers
- Evaluate proposals reverted by fascinated sellers and make a short list
- Discuss with short-listed suppliers and finalize you choices [29].

3.2.1 What is Emerging Market?

Emerging markets, or emerging economies, are often loosely defined. Emerging markets or emerging economies can be defined as people and countries who are prone to bring change in the ways they use to run businesses in order to achieve more excellence in the pursuit of becoming developing and developed nation. They have the sound tendency to improve the return on efforts and investments by moving upward from producing only agriculture and raw material to technological advance and high value added goods. The aim of these nation is to improve the living standards and development index of the individuals residing in that region [26]. The World Bank defines an emerging market as a region where GDP per capita income is between US$ 1,046 to US$ 4,125 per year [19].

MNCs gets a lot advantage in doing business in emerging markets. Here is the list of some of the advantages for MNCs are increased figures of sales, production efficiencies, increased earnings, improved competitive ability, increased independence from the markets, better opportunities to handle disruptions and shortages of supplies due to division of sources, better control on production action plans and lead times, better market saturation handling capability, extended product life cycles, improved venture plans, greater development prospects, increased level of competitiveness, likelihood of large prospective markets and low cost of entering in to new markets [28].

There are following characteristics of emerging markets:

- Lesser level of economic expansion, which could be articulated in GDP per capita.
- Emerging markets are the countries striving to rise as an open market economy, and independent society, “through policies conductive to increased growth”.
- Those countries are striving to achieve higher levels of growth by means of GDP expansion [28].

These rising economies contain a great potential of achieving market expansion and growth, those factors can be achieved and reflected by translating better social, political and economic reforms in to development of the economy which will in return rise quality of living [28].

The best way to reflect the factual information between developing and developed economies and to justify the importance of emerging nations can be done by analyzing the difference between evolving and developed economies are presented in below Table 7

Table 7. *Difference between Developed and Emerging Markets [Emerging Markets, Aziz Sunje p206] [28]*

Dimensions	Developed markets	Emerging markets
1. Level of economic development	High	Low/ Medium
2. State of economy (and society)	Developed/ Stable	Transitional/ Unstable (Economic/Political reforms)
2.1. Macroeconomic framework	Developed/ Stable	Undeveloped (being created)
2.2. Market institutions	Developed	Undeveloped (being built)
2.3. Market conditions	Stable	(Un)stable
2.4. Market infrastructure	Developed	Undeveloped (being built)
2.5. Governmental involvement	Not so high	Relatively high
2.6. Cultural resistance to market economy	Low	Higher
3. Rate of growth	Low	High
4. Room for growth	Narrow (matured markets)	Huge (undeveloped markets)

The difference between countries or nations to be considered as developed or emerging is of vital significance to recognize especially with a perspective of multinational corporations. A developed nation is supposed to have a reliable market condition and provides small scale of growth opportunities due to the maturity of its businesses and markets potential. On the other hand developing countries are in the phase of changing their status there for they are moving towards moderate to higher standards of growth they have huge space and potential to be tapped on hence they provide tremendous growth opportunities but it doesn’t come without certain degree of intervention from the government [28].

3.2.2 Assessing Emerging Market Competitiveness

The overall growth and market competitiveness of any country can be judged by its performance of trade and its overall position in the world markets, it can also be judged by the figures it is earning as compared to the competing countries. It also shows country's success in providing its businesses and industries a sound environment to operate without insecurities or interruptions. Productivity is the measure for the competitiveness of the country. The output produced by a labor in a particular time is called productivity. It indicates the future of a country and nation. The more productive a nation is today the more higher standards of living it is bound to get in the future and the more higher level of incomes its people are going to enjoy. What type of products or services a company is providing usually reflects level of productivity achieved by that nation. The higher the quality the more competitive production method the more productive out comes. Productivity also has a great degree of influence on firm's capability of becoming more innovative and proficient. Multinational businesses are always more interested to invest in economies which are more productive, well organized and contain certain degree of expertise, so that in long-term, those firms can also learn those good and useful practices to be implemented somewhere else for long term betterment. It is of prime importance for any nation to keep up-to-date and catch with ongoing advancement in technologies in businesses as it is the most effective tool to maintain the sustainability of economic growth. In addition to that a strong law enforcement, reliable and democratic political environment in the echelons of the country's government sector is also necessary to keep everything working. According to Luo, "economic fundamentals have long been considered the cornerstone for economic development. These fundamentals include: science, education and innovation, economic soundness and finance and internationalization, science education, and innovation" [24].

Economic reliability is a vibrant feature of economic fundamentals and a foremost cause of developing market effectiveness. It stimulates an economy's capability and capacity to propagate the health of the trade sectors, the balance of payments, and the desirability of investment by extraneous business. According to Luo, economic soundness can be defined as the "extent to which an economy has been equipped with all the economic prerequisites for sustained economic growth and stability". Stability is the most important and only factor that lays the foundation for continuous long-term growth of any economy. The less fluctuations and inflation rates in economy indicates the higher stability in the economy. Another important indicator of any economies success is the financial system of that country. If a country succeeds to keep external debts at minimum, currency highly valued and a reliable and flawless banking and finance system, it can guarantee a long term sustainability of its economic growth and prosperity [24].

A country's participation in the global markets is fueled by the degree of adaptability to internationalization and its productivity. The stronger the nation is in following traits, the stronger it will be in becoming a global player:

- Export of goods and outsourcing services provision and the balance of trade.
- The level of foreign direct investment and exchange rates.
- Free market economy and exchange reserves.

Luo claims that "high degree of competitiveness of an emerging economy requires a high degree of internationalization of that economy". Free market economies are those where exports of goods, services, human resource, innovation and technological advancements are welcomed, for developing nations it is also in their interest to maintain a certain degree of control on those factors in order to make sustainable growth possible and prevent any functional jeopardy due to any external unnecessary involvement [24].

For any developing and emerging market it is very important that they make their economies capable of transforming the development of their scientists and businesses in to commercial use. Lesser use of technology is one of the major reasons for low incomes in developing countries. For example, China and India have a great amount of outstanding scientists, but they have under-developed commercialization system, which has resulted in their low level of effectiveness. A country can attain foreign technologies and innovation proficiency by attracting foreign MNEs [24].

3.2.3 Entering Emerging Market

Entry Strategies concern where (location selection), when (timing of entry), and how (entry mode selection) international companies should enter and invest in a foreign territory during international expansion. It is good for the multinationals to enter in to the market when the market is having global expansion. According to Luo, "these entry strategies are important because they determine an MNE's investment environment, operation treatment, resource commitment and evolutionary path" [24].

Location Selection

Location selection is a process in which MNEs chose a location within country of the project(s) for foreign direct investment. Most emerging markets are economically and culturally diverse and these two factors determines the macroeconomic environment activities in a particular place. To select an appropriate country and a region within that country, international managers should first give priority to locational determinants that are likely to future operations and expected returns. There are following determinants should be considered for location selection: cost/tax factors, demand factors, strategic factors, regulatory/economic factors, and sociopolitical factors. It depends on the nature of the commercial objectives of the foreign direct investment, which factors are more important to the company [24].

Following factors are important to take into account by the multinational enterprises to select the country for investment such as raw material costs, transportation costs and labor

costs and government policies. MNEs should give importance to the transportation costs incurring to transport raw material to/within emerging market or transporting products from emerging market to international or home market. Labor costs makes up a high proportion of total production costs. Foreign production is more likely to happen when production costs are lower in abroad than home country. Costs of local materials and resources needed in production will determine the firm's gross profit margin. According to Luo, "localization of sourcing of raw materials reduces foreign exchange risks from devalued currencies as well as improves relationships with local governments and indigenous firms". Legal and effective tax rates effect a firm's profitability. Some developing countries offer incentives to attract FDI to support their domestic economy. Companies can be offered such as tax breaks/reductions, financial assistance, and tariff concessions. Locating the manufacturing close to the long-term customers improves efficiency and marketing effectiveness. [24].

Examples of the strategic factors are: investment in infrastructure, manufacturing concentration, industrial linkages, workforce productivity, and in-bound and out-bound logistics. Major infrastructure factors to attract FDI includes transportation (highways ports, airports, and railroads), telecommunications, utilities, and government efficiency. Roads and seaports are very important for transporting raw material and finished goods to transport globally. Cost of production can be reduced by locating close to major manufacturing activity area. A country or region with a strong concentration of manufacturing activity in certain industries or products is more likely to have an adequate labor force and supply network supporting production and operation. Complementary industries and special services like distribution, consulting, auditing, banking, insurance, marketing services are important as MNEs interact with these services in an emerging market. With the advancement in technology and innovations, production and manufacturing process requires high productivity and superior labor skills. New systems and techniques are required to get better educated labor-force. As MNEs inclines to rely more on local resources and raw materials, so the entrepreneurs have to give importance to the inbound logistics. Outbound logistics are mainly focused to major buyers and end customers. [24].

Regulatory/economic factors include industrial policies, FDI policies, availability of special economic zones. MNEs requires to check that the target country or region allows foreign business entry and that industrial policies are favorable or at least not interrupting business. MNEs need to check that how the FDI policies of target country would influence their plans and targets. A host government may demand MNEs to locate projects in certain geographical regions to improve regional economy. FDI can be attracted through the establishment of special economic and trade zones y emerging economy. These zones provide favored treatment in terms of taxation, import duties, land use, infrastructure access, and governmental assistance to MNEs.[24].

Political instability, cultural barriers, local business practices, and government efficiency and corruption makes the sociopolitical factors. Changes in government policies or ambiguity over the persistence of political and social set-up may affect the existence or profitability of any firm. Difference of culture, language and norms between emerging home markets is obvious. MNEs must be flexible and adaptive to accept these differences. Superior technology and skills cannot guarantee success to any firm, unless the firm integrate the country-specific and firm-specific knowledge. Site selection must consider community aspects like size of community, educational facilities, police and fire protection, and climate and so on. Environmental protection laws and regulations in the target location influence the choice and cost of investment. [24].

Timing

According to Luo, "timing of entry is very important because it determines the risks, environments, and opportunities the MNEs may confront". International organizations likely to have more pro-active investment opportunities in foreign markets than in their origin markets. This is mainly due to the different market and industry structures between home and host economies. By investing in a foreign market, a later mover in the home country could become an early entrant in the host country. Aside from noticing an opportunity, the decision on when to invest is largely based upon entry barriers. [24].

Entering a foreign market, early moving MNEs usually has the benefit over the late actors such as greater market power, more practical opportunities, and strategic options. These benefits pay-off in the form of higher economic returns. Leading investors tend to outperform later participants to gain market power. Early movers are able to invest in strategic installations, distribution networks, product positioning patented technology, natural resources, and human and organizational know-how. Moreover, the market pioneers can benefit from the advantages of holding technical leadership, seizing scarce resources and creating a buyer switching costs. Early movers will also get a lot of pre-emptive options, such as the right to pre-empt the marketing, advertising and distribution channels, and acquiring product image, organizational reputation and recognition of brand. In fact, early movers often have the opportunity to long-term profitable business at a specific time and is there available to early movers. Also, early movers can benefit from strategic opportunities, such as choosing sectors, location and market orientations [24].

Nevertheless, the pioneers, investors may face greater environmental uncertainty and operational risk. Environmental uncertainty comes from the laws and regulations of the new FDI underdeveloped market, the lack of host government experience working with international companies and industries in underdeveloped stages of a new market. Operational risk stems lack of qualified sources of supply and talent management and labor, insufficiently developed support services such as finance, consulting and marketing, as well as poor infrastructure of transport and communication. Compared with the pioneers, the late movers do not suffer from uncertainty and risks in advance. When late movers arrive, the

host environment and activities are more stable, the regulatory conditions are more favorable, and market infrastructure has already been developed. First movers often pay higher costs of learning and adaptation to local environment according to Luo. However, late movers can greatly benefit from a set of skilled labor and favorable industrial infrastructure. In particular, late movers benefit imitating policies and strategies that have proven successful in the emerging market [24].

Entry Mode

The multinational companies entering foreign markets must take important strategic decisions regarding the use of entry mode. Methods and means of a specific entry while entering the country of destination are to achieve the expected strategic objectives. According to Luo, "patterns can be classified as types of records the entry relating to the transfers of the entry relating to foreign direct investment" [24].

Transfer related entry modes mainly has following categories:

International Subcontracting: International commissioning has been comprehensively used by MNEs looking for low labor expenses in a target nation and delivers local manufacturer with raw materials, semi-finished products, refined mechanisms, sophisticated components, technology or knowledge for producing final product which will be bought back by the foreign company [24].

International Leasing: In this classification overseas firm charter out its novel or cast-off machines or tools to the local company to produce for the foreign company.

International Licensing: In this group overseas licensor awards identified substantial property rights to local licensee for a quantified period of time in interchange for a royalty fee. Such property rights may include patents, trademarks, and technology or management expertise.

International Franchising: In this classification overseas franchiser awards identified characteristic or brand name to native franchisee. Compared to licensing, franchising contains extended assurances, offer superior mechanism over overseas operations, and includes a bigger package of rights and possessions.

Build-Operate-Transfer (BOT): In this category foreign investor take the responsibility for the design and structure of an all-inclusive procedure and upon accomplishment of the project, the project is handed over to the resident company.

FDI-related entry methods comprise ownership of property, resources, ventures and business capitalized in a developing market. FDI-related entry methods include:

Branch office: Branch office is an extraneous unit in a developing market in which an office of extension of the mother company is legally established as a branch.

Cooperative Joint Venture: It is a cooperative arrangement whereby incomes and other accountabilities are allocated to each party conferring to an agreement.

Equity Joint Venture: An equity joint endeavor comprises forming a new entity that is equally owned and managed by two or more mother companies in diverse states.

Wholly owned subsidiary: In this group participating firm own 100 percent of the new entity in a developing market. It permits overseas investor an increased flexibility and control over processes and strategies of the business.

Umbrella Holding Company: The umbrella holding company is an investment company which unites the firm's existing investments such as branch offices, joint ventures, and wholly-subsidiaries under one umbrella to combine sales, procurement, manufacturing, training, and maintenance within the host country [24].

3.2.4 Sourcing in Emerging Market

Global sourcing for the purpose of acquiring materials from low-cost countries is not a new concept. Numerous corporations have been doing so for years to reduce overall costs and capture other strategic benefits. However, there have been some significant changes recently as upsurge in the quantity of companies striving for a more worldwide resource base. In addition, the variability of states being measured as sourcing contenders has increased and variety of items being acquired has widened. Cavinato states that "after identifying the need for sourcing in emerging markets, the company has to develop an overall low-cost-country sourcing models and opportunities" [29].

Although there are many advantages in emerging market sourcing, one has to keep in mind that there are some difficulties in acquiring suppliers in this area. Dramatic differences in culture, relationships and technology of the low-cost countries compared to developed countries create challenges for global sourcing. These challenges are discussed below:

Supplier relationships and identification: Many corporations have consumed a great deal of time, energy, and money constructing a system of prolific supplier associates and connections. Employing new supplier to a well-designed system interrupts, and it takes time to grasp and balance again.

Technology and information systems: Information technology systems and organizations are considerably not as much advanced in the low-cost nations.

Supplier short-listing: During the solicitation, selection, and short listing process Western companies will notice that there can be some difficulties when acquiring Asian suppliers.

Information is tougher to obtain, combine, and present due to systems constraint and language barriers. In addition, quality standards and legal understanding may not be bound, which increases the risk of leaking information.

Relationship-based negotiation: Companies will need to integrate an understanding of local business culture and relationships when negotiating with the Asian suppliers for quality, service, and price [29].

3.3 Sourcing

According to Cavinato strategic sourcing began in the decade of 1990s as a euphemism. Descriptions have shifted from tactical to more strategic over the last decade. The purchasing function became more supply management and buying activity became sourcing. Sourcing used to be considered as recognizing and succeeding prospective suppliers of a company's bought material and services. When strategic was added into it, its meaning was extended to a systematic, repeatable process to identity, qualify, specify, negotiate, and select suppliers for categories of similar spend. The supply managers review and update sourcing strategies periodically. Suppliers are invited to be part of the process to varying degrees, depending on the category classes. The senior corporate executives are informed on major spend categories and require their involvement when financial or operating impact is important. Strategic sourcing has evolved as an organized and systematic collective practice to recognize competitive suppliers for longer-term contracts to buy materials and services that firms require for direct and indirect purposes [29].

Strategic sourcing is an institutional procurement process, which is being constantly updated and re-evaluated the procurement activities of the company. It is one of the important component in the supply chain management. According to Nishiguchi, it is a strategic acquisition in the following areas:

- Assessment of a company's current consumption
- Assessment of the supply market
- Development of a sourcing strategy
- Identification of suitable suppliers
- Negotiation with suppliers
- Implementation of new supply structure
- Track results and restart assessment [30].

3.3.1 Sourcing Objectives

In general, lower purchase price for a material is less important than achieving the lowest total cost of ownership. In order to reduce the total cost of ownership, supply chain costs instead of material costs must be considered. According to Cohen and Roussel "supplier

practices, quality and capability are the factors that define supply chain costs such as ordering, inspection, payment and inventory holding". Different categories have different supply market complexity and business impact. Thus, procurement activities and organization should be differentiated on the basis of these specific strategies [31].

The management of procurement actions at company level, with respect to the use of the standard qualifications of corporate tools and appropriate administrative structure. Thus, the overall management allows the use of best practices and lower units costs and greater flexibility with suppliers by creating chain more efficient and sustainable supply. Cohen and Roussel suggests that companies should seek visibility and control of the procurement process. The objectives should be set by mutual coordination and be measured by key performance indicators. According to Cohen and Roussel, there are four fundamental principles of the acquisition:

- Goal for the lowest total cost of ownership
- Establish acquisition strategies according to category
- Keep the focus of the company
- Measure and manage performance [31].

3.3.2 Steps in Sourcing

According to Nassimbeni and Sartor, there are ten common steps in the sourcing process. These steps are described in Figure 19:

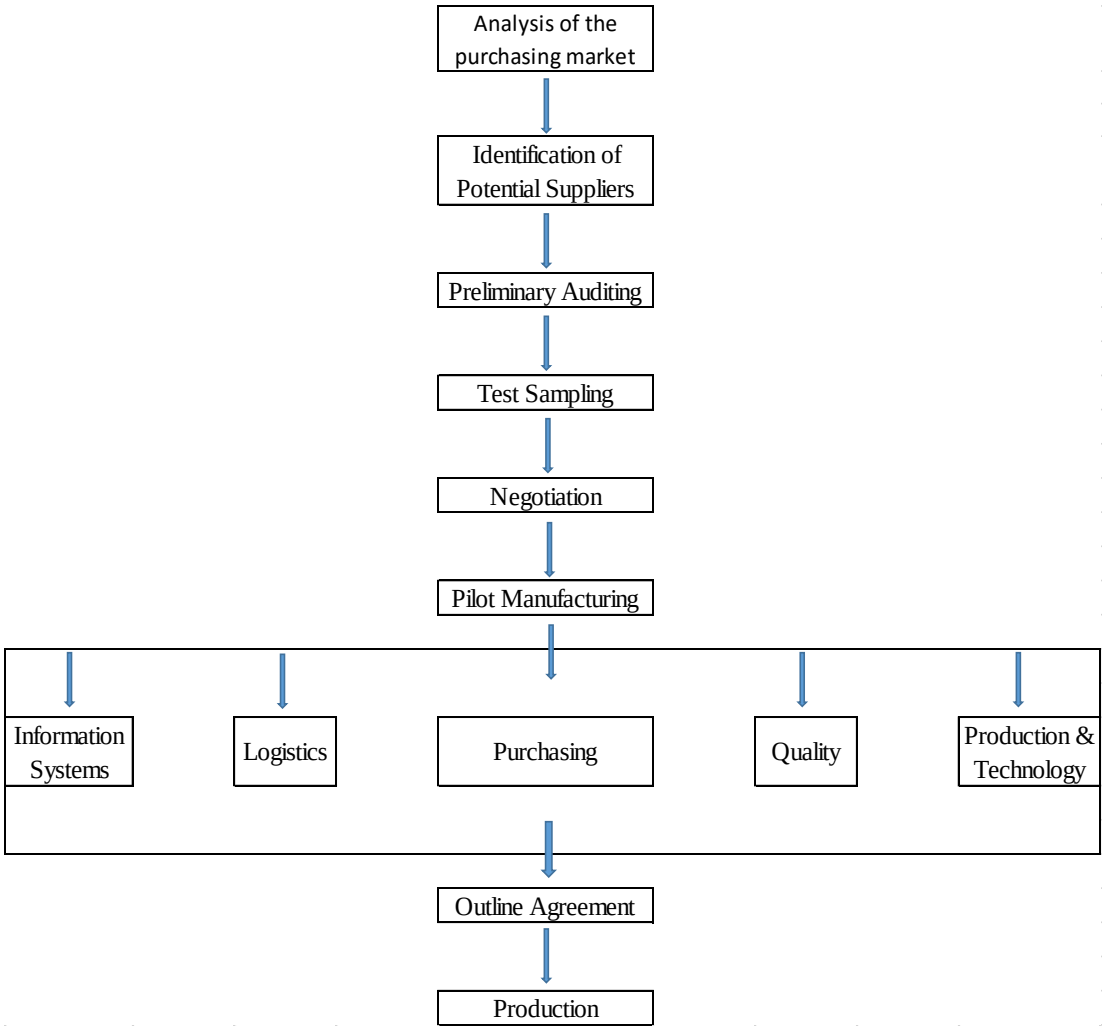

Figure 19. *Steps of the sourcing process (Adapted from Nassimbeni & Sartor)[32]*

1. Analysis of the Purchasing Market: Firstly, the potential purchasing market has to be analyzed and assessed. Some issues that have to be cleared are the current and potential competitive advantage of the country, expertise of the local producers, custom barriers and risk of infringement of intellectual property rights.

2. Identification of Potential Suppliers: Potential Suppliers can be found via following information Channels: trade fairs, foreign trade companies, internet, institutions and other companies

3. Preliminary Auditing: Deeper and more selective analysis of the supplier is done by auditing. Specific focus will be on comparing if the information transmitted by vendor is

correct concerning the facilities and capacity. The product and process technologies will be evaluated.

4. Test Sampling: The buyer sends the technical specification of the item containing the drawing, production guidelines and other instructions to the supplier. Supplier manufactures the samples after which the buyer analyses the sample's quality.

5. Negotiation: Many negotiations are carried out when creating a purchasing channel. When preparing intercultural negotiations cultural issues should be considered. At this stage specifications for the pilot batch are defined (e.g. quantity, price, inspections, delivery terms, packaging, and export documents)

6. Pilot Manufacturing: When starting the pilot production the main attention is on quality of the items and manufacturing processes. At this stage modifications are still possible to achieve the best possible result for the cooperation.

7. Redefinition of the Supplier's Operational System: When starting the direct collaborative sourcing, it may be necessary to adjust the operative system of the supplier to buyer's needs to make interaction as fluent as possible.

8 A) Information System (communications and exchange means)

B) Logistics (Choice of carrier)

C) Purchasing

D) Quality (Process and Controls)

E) Production and technology (transfer of know-how)

9. Outline Agreement: After securing the satisfaction of both parties, an agreement should be made. Examples of issues to be defined in the contract are: price, capacity, production methods, terms of delivery, form of payment and liabilities.

10. Manufacturing: Continuous production can be started after the approval of the supplier. At this stage it is important to protect quality, control the whole production process and to intensify cooperation. In addition, creating a fluent and open flow of information is crucial.

The above sourcing process is very similar to the sourcing process followed by almost all companies in the world for sourcing product and goods globally [32].

4. VIETNAM AS AN EMERGING MARKET FOR TEXTILES AND FASHION INDUSTRY

Vietnam was decided to concentrate on sourcing of garments, because Vietnam has enjoyed a sharp increase of clothing exports with the signing of WTO in 2007. Country's garments and textiles export increased by many folds. Manufacturing cost in China is increasing, and we have to look for the new manufacturing markets in-order to keep the low cost manufacturing model effective. Many state-owned companies have been starting to transform into public owned companies. There has been advancement in product and process technologies of T&C industry in Vietnam, which attracts the brands and importers to take the benefit of low-cost manufacturing.

This part of thesis begins with a brief introduction about Vietnam and its economic indicators. Later the factors for a successful emerging T&C industry market is discussed such as economic indicators, business and investment environment, T&C industry in Vietnam, and govt. policies to enhance competitiveness. Lastly, the SWOT analysis of T&C industry is discussed to evaluate the current situation and future prospects.

4.1 Introduction to Vietnam

Vietnam (officially Socialist Republic of Vietnam) is a long stretched country along the eastern coast of the Indochinese Peninsula. Vietnam borders with China in north, Laos and Cambodia in east and South China Sea in south and west. Vietnam has a total land area of 331,210 sq. km and it is slightly bigger than the state of New Mexico of USA. It has land boundaries of 4,616 km and coastline of 3,444 km. Vietnam has a population of 94.3 million (in 2014) and almost 45 % of population is 25-54 years old. Vietnamese is the official language and English is increasingly favored as a second language. Hanoi is the capital of Vietnam and Ho Chi Minh City is the largest city [7].

Figure 20. *Map of Vietnam [Source Vietnampentour] [33]*

Table 8. *Information of Vietnam (Source CIA World Factbook)[7]*

Entry	Information
Country	Socialist Republic of Vietnam
Land Area	331,210 sq km
Poluplation	94.3 million
Capital	Hanoi
Climate	Tropic, subtropic
Language	Vietnamese
Currency	Dong
Time	7 Hours ahead of
GDP - per capita	USD 5600

Vietnam joined the World Trade Organization in 2007 and joined the Trans-Pacific Partnership as an official negotiating partner. These trade agreements have promoted Vietnamese industries to be more competitive and export-oriented. Share of the economic output of agriculture has reduced from 25% in 2000 to 18% in 2014, while share of the industry increased from 36 to 38% in the same period [7]. Foreign trade of Vietnam is shown in:

Table 9. *Foreign Trade of Vietnam (WTO Vietnam)[34][46]*

Foreign trade of Vietnam					
Foreign Trade Indicators	**2009**	**2010**	**2011**	**2012**	**2013**
Imports of Goods	69949	84839	106750	113780	132033
Exports of Goods	57096	72237	96906	114529	132033
Imports of Services	6759	9771	11707	12353	13015
Exports of Services	5666	7355	8581	9510	10380

The value of exports of Vietnam has increased significantly in the period of 2009 to 2013 with the average annual percentage of 19% and 18% in 2013. Meanwhile, imports of Vietnam also increased with the average percentage change of 17% from 2005-2013 and 16% in 2013 [34].

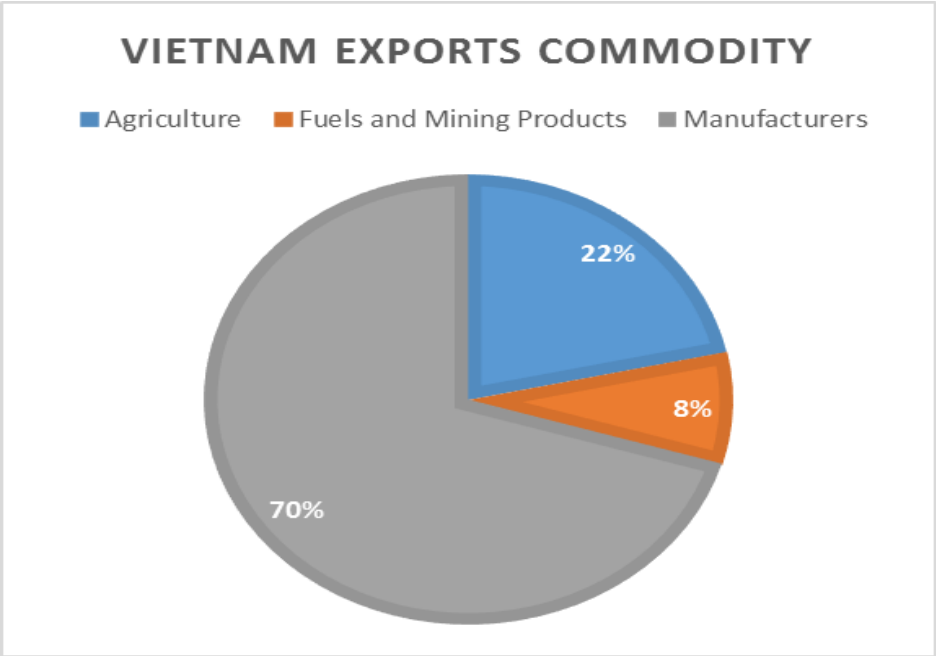

Figure 21. *Breakdown of Vietnam's total exports in 2013 by commodity group [Adapted from WTO Vietnam] [34]*

Manufacturing products emerged as the largest export commodity of Vietnam in 2013 with 70% share in total exports followed by exports of agriculture products with the share of 22%.

Table 10. *Vietnam's Top Export Sectors (2013) (trademap, Vietnam Exports)[35]*

Vietnam top 5 Export Sectors (2013)		
Sector	**Value USD bn**	**Share %**
Electrical, electronic equipment	32.28	24.45
Apparel and accessories	16.7	12.64
Mineral fuels and oil	9.68	7.33
Footwear, gaiters	8.72	6.6
Machinery	8.23	6.23

Top export commodities of Vietnam in 2013 was led by the exports of electrical and electronic equipment with the value of USD 32.28 billion and the share of 24.45% and followed by export of textiles with USD 16.7 billion (12.64% share) and mineral fuels and oils exports of USD 9.68 billion with 7.33% share in total exports [35].

Figure 22. *Vietnam Exports Destination in 2013 (Share %) [Adapted from WTO Vietnam] [34]*

EU-28 was the largest export destination of Vietnamese exports 18% share, followed by USA with 17% share and both China and Japan with 11% share in total exports.

Same trend was observed in imports of Vietnam, in 2013, manufacturing products recorded for 77% share followed by agriculture products 12% in total imports value.

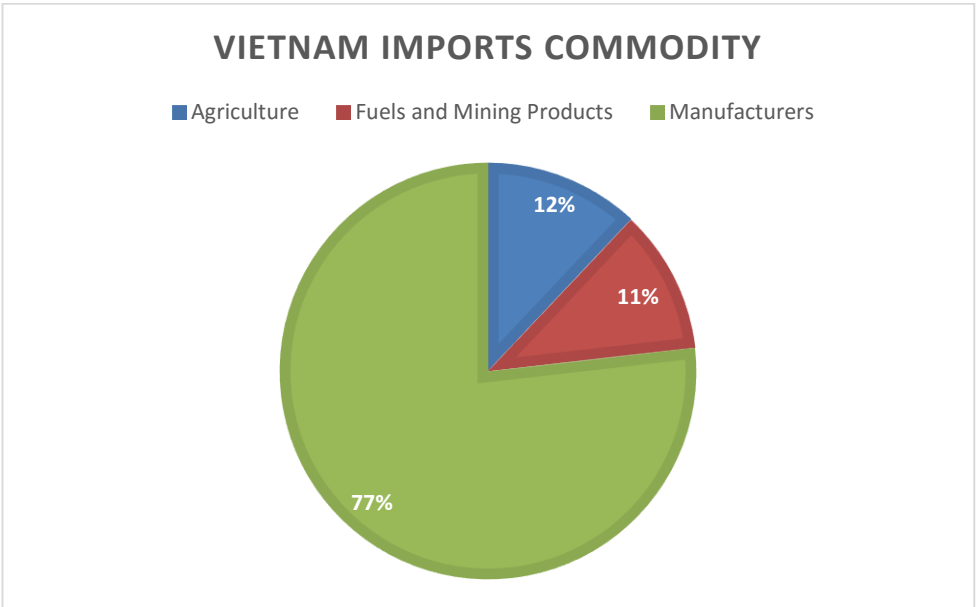

Figure 23. *Breakdown of Vietnam's total imports in 2013 by commodity group [Adapted from WTO Vietnam] [34]*

Electrical and electronic equipment recorded for biggest Vietnamese import sector in 2013 with USD 31.42 billion followed by the imports of machinery and mineral fuels.

Table 11. *Vietnam's Top Import Sectors (2013) (trademap, Vietnam Imports)[35]*

Vietnam top 5 Imports Sectors (2013)		
Sector	**Value USD bn**	**Share %**
Electrical, electronic equipment	31.42	23.8
Machinery	14.74	11.16
Mineral fuels and oil	10.17	7.7
Plastics	8.51	6.44
Iron	8.09	6.12

China was the biggest supplier of imports of goods for Vietnam in 2013 followed by Republic of Korea with 14% share in total imports.

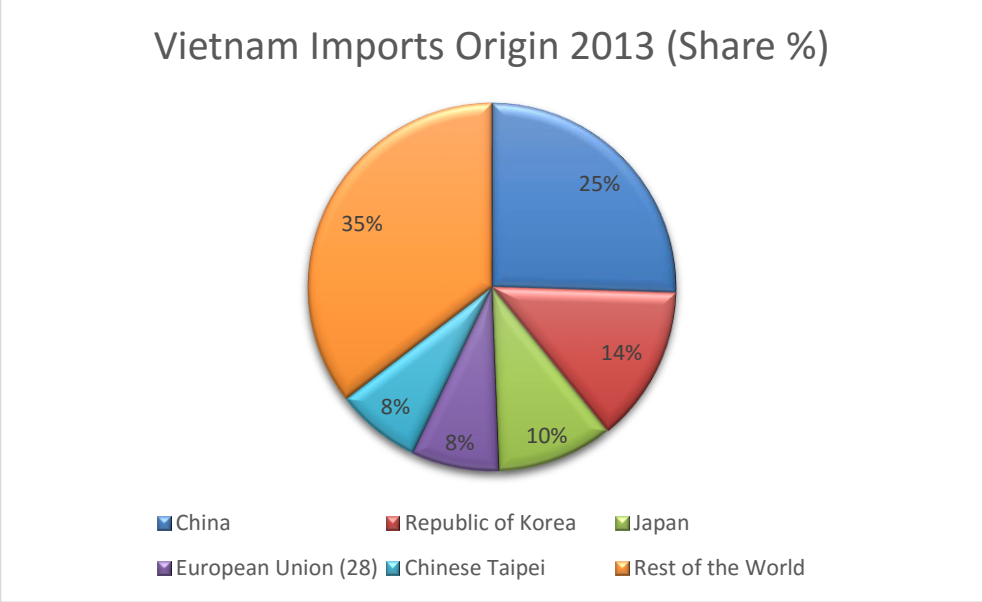

Figure 24. *Vietnam Imports Origin in 2013 (Share %) [Adapted from WTO Vietnam][34]*

Vietnam was the leader in low-cost manufacturing compared to other developing markets in the region. Vietnamese manufacturing sector accounted for 25% of its total GDP and in 2013 labor costs in Vietnam were 50 percent as compared to China and 40 percent of those in Thailand and the Philippines. Vietnam experienced growth on multiple fronts and domestic consumer market. Domestic consumption was expected to increase at a rate of 20 percent per year. Vietnam had the South East Asia's fastest growing middle class and thus it represented an important market for foreign goods [36].

Vietnam had total 45 airports, out of which 38 airports had paved runways. International airports were located in Ho Chi Minh City and Hanoi. Vietnam had a railway line of total 2,632 km and ranked 64 in world. Total roads were 206,633 km long and paved roads

were 148,338 km long. Major seaports were Cam Pha Port, Da Nang, Haiphong, Phu My and Quy Nhon and only river port was Ho Chi Minh (Mekong). These seaports were associated with may container ports, but major container ports were Haiphong (capacity 1,018,794 TEUs) and Saigon New Port (3,071,777 TEUs) [7].

4.2 Economic Indicators

Vietnam's economy and industry was damaged by the war, but the economic success gains in last 25 years made it one of the Asia's most successful economies. In 1986, the communist party introduced reforms known as Doi Moi or "Renovation". Through that time the country has progressively reduced trade barriers, capital flows, and opened the economy more widely to private business. Since these reforms began, the economy has presented an annual per capita GDP growth of 5.3 percent, it was the highest sustained growth than other Asian economies apart from China [37] .

4.2.1 Gross Domestic Product and Growth Rate

Vietnam has become one of the fastest-growing developing countries in the world, averaging around 8.4% annual gross domestic product (GDP) growth from 1990-1997, 7.5 % from 2000 to 2006, and 6% from 2007 to 2014. Highest GDP growth rate recorded between 2006 and 2008 was 8.5%, but it was decreased to 6.2% in 2008 and further decreased to 5.3% in 2009 due to the global financial crisis. However, GDP growth rate again increased to 6.8% in 2010 which stood at USD 106.01 billion, a stable growth rate of 5.5% was recorded between 2011 and 2014. Principal economic sectors contributing to the GDP include agriculture, industry, and services had equal importance in the contribution to the total Gross Domestic product in the country. From 1990 to 2014, the proportional weight of agriculture slipped from 39% in 1990 to 12% in 2014 and giving away to manufacturing industries increased share to 77% in 2014 [38]. Annual GDP growth rate is shown below in Figure 25:

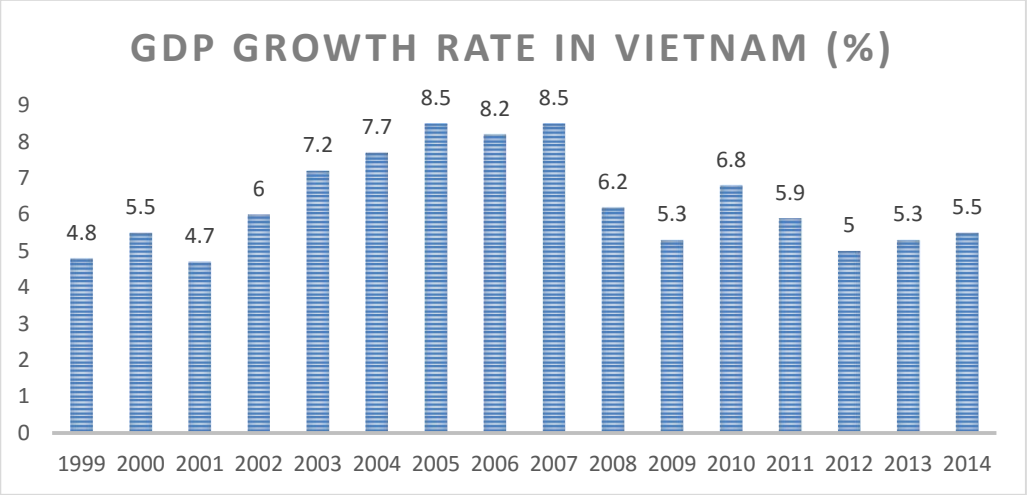

Figure 25. *Annual GDP growth rate (%) in Vietnam from 1999 to 2014 [Adapted from tradingeconomies.com] [38]*

Below Figure 26 shows the Annual GDP of Vietnam in the period 1999 to 2014. In 2006, Annual GDP of Vietnam was recorded at USD 57.63 billion and in 2014 it was noted at USD 171 billion, which is more than three times increase in just 8 years [38].

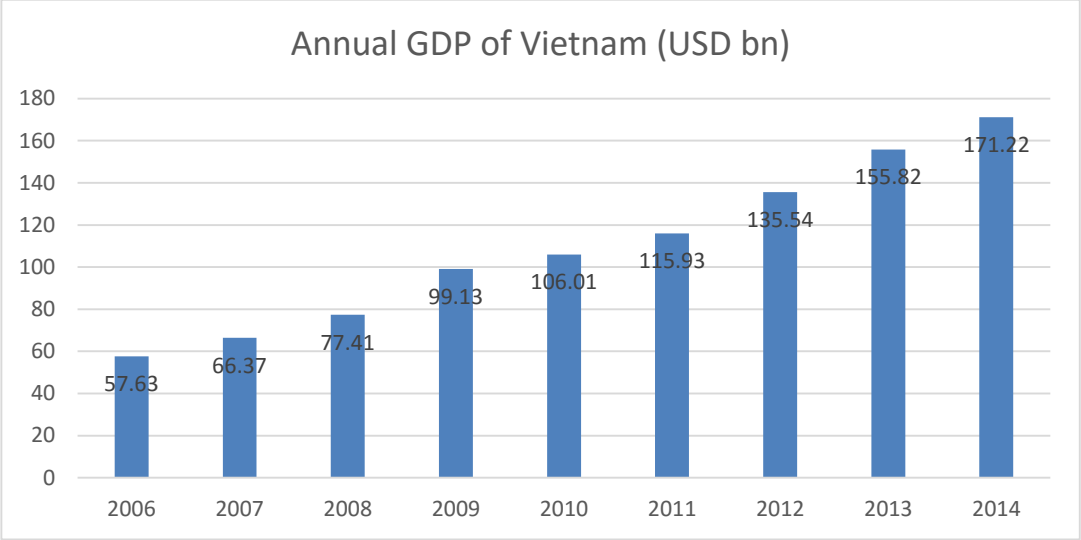

Figure 26. *Annual GDP of Vietnam from 1999 to 2014 [Adapted from tradingeconomies.com] [38]*

GDP per capita income of Vietnam against China is shown in below Figure 27. GDP per capita of Vietnam shows an increasing trend, this shows that the income of Vietnamese people is increasing which will have effect on their purchasing power. GDP in China was recorded at USD 3,865 while in Vietnam it was USD 1077.91, it shows that Chinese labor had almost 3.5 times more income than Vietnamese worker. GDP of China is predicted to increase sharply in coming years, which will impact the cost of manufacturing in China.

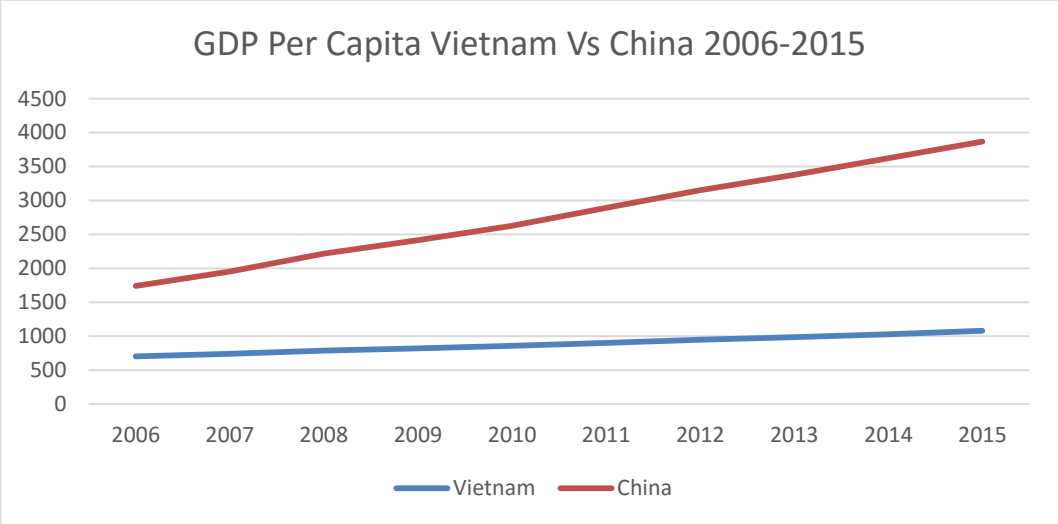

Figure 27. *GDP per Capita Vietnam vs China from 2006 to 2015 in USD [Adapted from trading economies] [38]*

4.2.2 Foreign Direct Investment (FDI) in Vietnam

Vietnam has been successful in attracting a significant amount of foreign direct investments. Continuous efforts of the government of Vietnam in improving the business environment has brought encouraging results and proven an attractive investment environment for foreign investors. Highest value of FDI (USD 71.72 billion) in Vietnam was recorded in 2008 after joining WTO in 2007 [39]. Trend in FDI during 2006 to 2013 can be seen in Figure 28 below

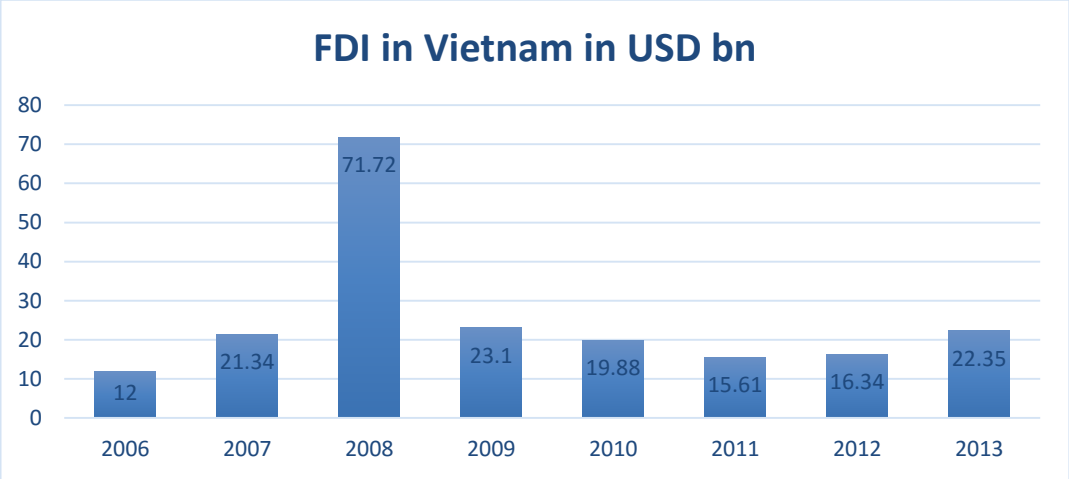

Figure 28. *Foreign Direct Investment in Vietnam from 2006 to 2013 [Adapted from GSO Vietnam 2014][39]*

Vietnam had attracted a total of 17,768 foreign investment projects until the end of 2013 and the highest percentage of FDI was made in manufacturing industry with USD 141.46 billion followed by real estate with 19.10% share in total FDI [39]. FDI in Vietnam in year 2014 by industry type is shown below in Table 12

Table 12. *FDI in Vietnam by type of industry as of 2014 (Adapted from GSO Vietnam 2014)[39]*

FDI in Vietnam by type of Industry			
Industry Type	**Number of Projects**	**Value in USD bn**	**Share %**
Manufacturing	9600	141.46	55.98
Professional, scientific and technical activities	1698	1.79	0.71
Construction	1166	11.4	4.51
Wholesale and retail trade	1383	0.4	0.16
Hotels and Food projects	371	11.19	4.43
Real Estate	453	48.27	19.10
Other	3097	38.2	15.12

In 2014, FDI of USD 22.35 billion was recorded and 1,588 new projects were registered. The biggest share of FDI was the manufacturing industry with 72%. Through 2000-2013 major FDI countries were Korea, japan, Singapore and Taiwan [40].

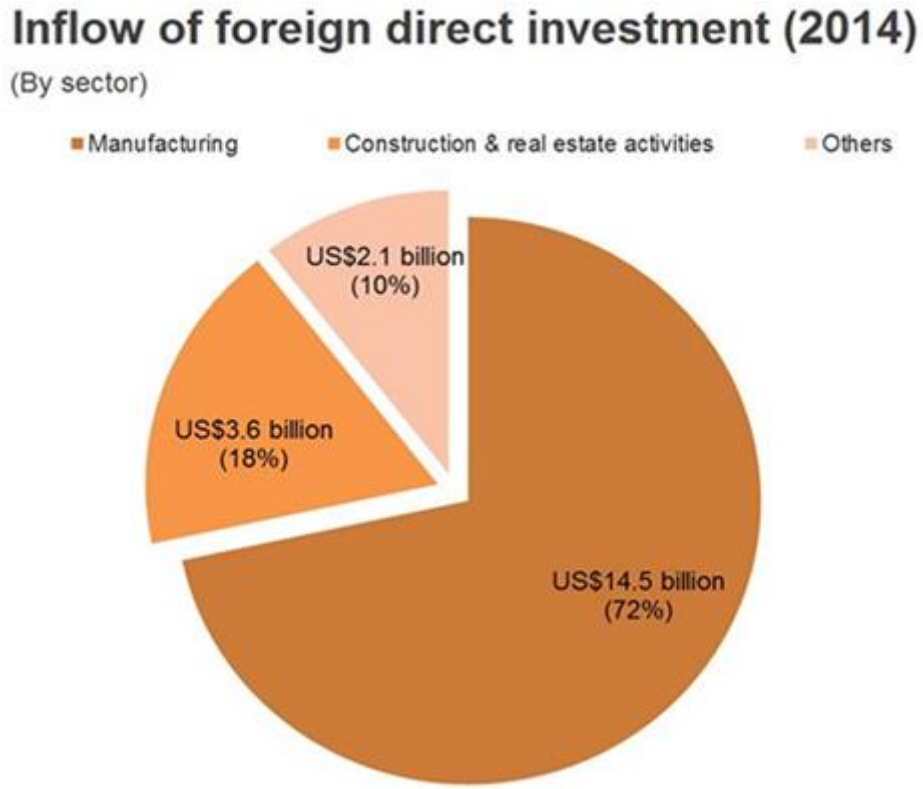

Figure 29. *FDI inflow in Vietnam in 2014 by industry type [Source HKTDC][40]*

4.2.3 Foreign Trade Performance

Although Vietnam had trade deficit for ten years, but foreign trade performance shows a positive trend. Over the past several years, huge volume of import of machinery and raw materials has been made in Vietnam to fulfil the increasing demand of growing export-oriented industries. The export percentage of imports has increased substantially starting from 1997 [41]. Figure 30 shows the foreign merchandise trade performance of Vietnam below.

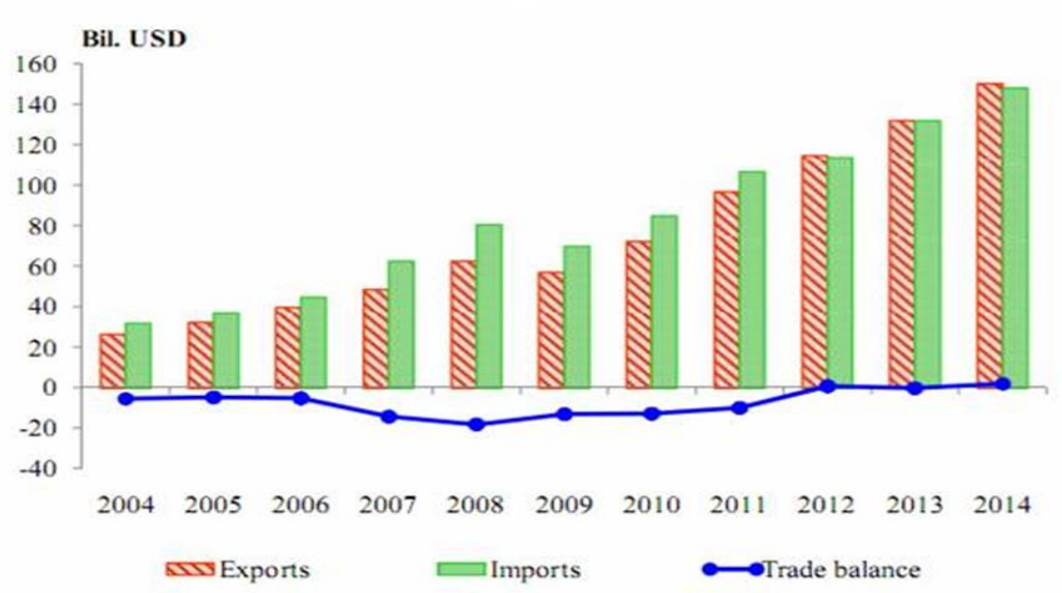

Figure 30. *Foreign Merchandise Trade Performance of Vietnam [Source Vietnam Customs, trade 2014][41]*

Above Figure 30 states that the economy of Vietnam had been maintaining a remarkable growth pace consecutively for many years, where export sector contributed significantly. According to trade statistics of Vietnam Customs, a total value of Vietnam's trade-in-goods was recorded at USD 298.24 billion, which was 12.9% (USD 34.17 billion) higher than 2013. Vietnam trade was in deficit throughout the period starting from 2004 to 2011 and trade deficit was recorded at minimum level in 2011 and 2012. It was the first time in 2013, that the country recorded the highest surplus in Vietnam's trade balance, which reached USD 2.14 billion. Total value of exports was USD 94 billion, expanded by 16.1%, whereas imports stood at USD 84.18 billion and expanded by 13.1% [41].

4.3 Business Environment, Investment Climate and infrastructure in Vietnam

Business environment is determined by many internal and external factors. Business environment is discussed below with certain different criteria.

4.3.1 Vietnam Public Sector Profile

State owned enterprises were one of the biggest employers and revenue earners in Vietnam. After the "Doi Moi" reforms of 1986 brought market-oriented change to Vietnam. According to the GSO of Vietnam, contribution of State companies' contribution to gross domestic product fell to less than a third in 2014 from about 56 percent before the reforms, while the private sector contributed 43 percent to GDP. As of 2014, only 10 percent of total workforce of Vietnam works in state owned enterprises and 86% works in private sector [42]. From 2015, government of Vietnam is taking initiative to sub-contract the state-owned-enterprises to the private sector to boost efficiency [43].

4.3.2 Legal and Regularity Framework

Before joining WTO, Vietnam refurbished much of its legal system, making amendments of major legal frameworks, especially labor code, land law, civil code, law on securities, law on competition, enterprise law and investment, in order to make the investment environment more transparent. With the agreement with WTO, MNC's market entries has helped to revolve Vietnam's legal environment to be more transparent and more conform to international standards in all respects. Before joining WTO, Vietnam had proved continued efforts in achieving high GDP growth, liberalizing its market and transforming its regulatory environment [44]. Vietnam is a member of many international organization such as the United Nations, ASEAN Regional Forum, Asia-Pacific Economic Cooperation forum, International Monetary Fund, World Bank, and World Trade Organization [45].

4.3.3 Trade Policies

After the implementation of "Doi Moi Policy" reforms, Vietnam has carried out three significant tax reforms to make them fit to the changing dynamics of the country's economy [46].

First Reforms: The first reforms were implemented between 1990 to 1995, a unified tax system for state-owned- enterprises, private sector and agriculture sector. Earlier all these sectors had different tax rate.

Second Reforms: second tax reforms took place in the period of 1997 to 2005. Modern taxes such as Value added tax (VAT), corporate income tax, and special consumption taxes were implemented.

Third Reforms: These reforms took place in the period of 2006 to 2010. These reforms were aimed to promote export and encourage domestic production, and discourage imports by imposing import taxes. Certain goods were exempted from VAT to enhance local production. Corporate Income Tax was reduced from 28% to 25%, new other taxes were introduced such as the Personal Income Tax and royalty tax in 2009, non-agricultural land use tax and environmental protection tax in 2010.

More recently in May 2011, 10 tax categories will be reformed such as Value-added tax, corporate income tax, personal income tax, special consumption tax, import-export tax, royalty tax, agricultural- and non-agricultural land use tax, environmental protection tax, and fees and charges. Single Value-added tax rate would be applicable on certain goods and services and in this way 80% or more state budget revenues will comprised of these taxes [46].

4.3.4 Investment and trade Incentives

In beginning, policies for FDI promotion in Vietnam was targeted to enhancing and linking the differences between domestic savings and investment demands to achieve targets. However, with the maturity and reforms of trade policies, the objective of FDI attraction has slowly directed towards a more sustained and mature direction. Government of Vietnam has provided a list of projects to foreign investors for a five year plans, where certain sectors and areas are entitled to incentives during this time [47]. Below is a list of taxes and incentive for foreign investment:

Corporate Income Tax (CIT): Manufacturing, trades and services companies are liable to pay CIT. Standard rate of CIT is 25%, however special CIT rate of 10% and 20% are available for companies investing in certain geographical areas, economic zones or hi-tech parks [48].

Export Duties: Export is encouraged in Vietnam, so most of the export oriented goods and services are exempted from export duties. However, export duties are charged on minerals, forests and scrap metals are entitled to export duties from 0-45%. All export duties are calculated on the FOB value [48].

Import Duties: Almost all goods are entitled to import duties which comes to the border or port of Vietnam. Many high-tech products and machineries which are not produced locally or those who will be used to manufacture export-oriented products have 0% tax rate. Goods imported from most favorite nations have preferential tax rate, but goods

imported from non-MFN countries are entitled to a flat 150% tax rate. Also luxury products have also a high tax rate [48].

Value Added Tax (VAT): All goods and services consumed in Vietnam are entitled to VAT. VAT rate are 0%, 5% and 10% and are calculated by direct multiplication of value of goods with the applicable VAT rate. 0% VAT rate applies to certain export of goods and services including sales to Export Promotion Zones [48].

Special Tax (Excise Tax): Special tax applies to cigarettes, beers, spirits, automobiles with less than 24 seats, oil products, and many entertaining and recreational places such as bars, clubs, dancing hall, and golf clubs et cetera [48].

Personal Income Tax (PIT): Vietnamese working in Vietnam or working broad and foreigner working in Vietnam are entitled to PIT. Progressive tax rate is applicable on wages, salaries, bonuses, remunerations and allowances. Foreigners working in Vietnam are allowed to transfer their incomes abroad after paying income tax [48].

4.3.5 Infrastructure in Vietnam

Basic infrastructure is made of rail, road, port, electricity supply and education. China has an edge over all the developing countries in basic infrastructure. Beside China, Vietnam has overall better rail, road and port infrastructure as compared to Bangladesh, India and Cambodia. Also, quality of electricity supply and education has better performance than other competing countries in the region. Overall, Vietnam has better global rank, which stood at 68 [49]. Basic infrastructure of selected economies is shown below in Table 13

Table 13. *Quality of Infrastructure in Vietnam (World Economic Forum)[49]*

Basic infrastructutre in Vietnam (High points represents higher quality) numbering scale 1-7									
Country	**Infrastructure**	**Transport Infrastructure**	**Quality of Roads**	**Quality of Port Infrastructure**	**Quality of Railroad Infrastructure**	**Quality of Air transport Infrastructure**	**Quality of Electricity Supply**	**Higher Education & Training**	**Global Rank**
Vietnam	3.7	3.5	3.2	3.7	3	4	4.2	3.7	68
China	4.7	5	4.6	4.6	4.8	4.7	5.2	4.4	28
Bangladesh	2.4	2.4	2.8	2.4	2.9	3	2.5	2.9	109
India	3.6	4.5	3.8	4	4.2	4.3	3.4	3.9	71
Cambodia	3.1	2.8	3.4	3.6	1.6	3.6	3	2.9	95

As shown below in Table 14, Vietnam and China took almost same time and cost to export the container in 2015, but China required 8 documents to export a container, which was higher than 5 required in Vietnam. Cost of imports in Vietnam is USD 610, which was far lesser than USD 823 in China and days require to import are 21 which are less than China that is 24 days, that is 3 days less. Among all competing economies, Vietnam scored better in all indicators of imports and exports costs, and time and documentation [50]. Costs, time and documents required for exports and imports in selected economies are shown below in Table 14:

Table 14. *Exports and Imports Time and Cost in Selective Economies (Adaptive from doing business 2015)[50]*

Cost, time and documentation to export/import of selective economies					
Indicator	**Vietnam 2015**	**Vietnam 2014**	**China 2015**	**India 2015**	**Bangladesh 2015**
Documents to Export	5	5	8	7	6
Time to Export	21	21	21	17	28.3
Cost to Export (USD)	610	610	823	1332	1281
Documents to Import	8	8	5	10	9
Time to Import	21	21	24	21	33.6
Cost to Import (USD)	600	600	800	1462	1515

4.3.6 Cost of Doing Business

As discussed above, under the “Doi Moi (Renovations)” Vietnam has opened its door for economic activities and encouraging private sector for investments, and encourages market development activities. Vietnam has established a number of export zones and industrial parks and preferential treatments to enhance investment in private manufacturing industry. As a result of renovation and improvement in trade policies, cost of doing business activities has improved in last a few years [50].

Cost of Business Index 100 of Vietnam in 2015 can be seen in Table 15 below:

Table 15. *Cost of Doing Business in Vietnam 2015 (Adapted from doing business 2015)[50]*

Topics	Doing Business 2015
Overall Rank	78
Starting a Business	125
Dealing with Construction Permits	22
Getting Electricity	135
Registering Property	33
Getting Credit	36
Protecting Minority Investors	117
Paying Taxes	173
Trading Across Borders	75
Enforcing Contracts	47
Resolving Insolvency	104

A study made on determinants for locative Investment in Vietnam showed that MNE's found Vietnam very attractive for investment due to low labor costs, general reputation and most importantly trade incentives. Other motivating factors for investors to invest in Vietnam were reputation of quality, infrastructure and availability of skilled labor [51]. Determinants for locative investment in Vietnam are shown below in Figure 31 below:

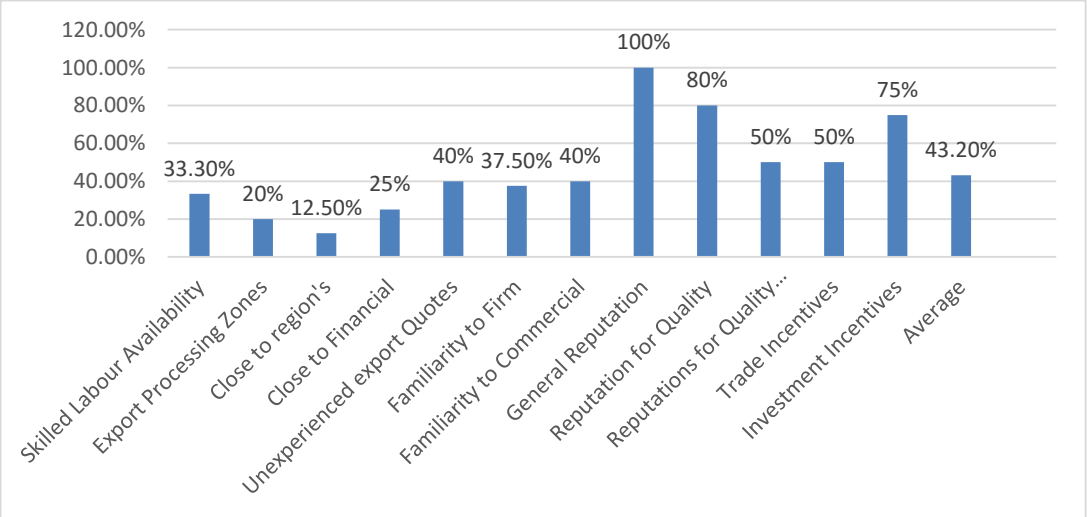

Figure 31. *Determinants for Locative Investment in Vietnam [Adapted from ACTIF 2010][51]*

In below Table 16, total labor wage in 2014 is presented in selected countries. Total wage or labor cost is the sum of annual wage per worker per year of which beside basic salary employee contribution (pension, housing fund, medical, injury, maternity, and unemployment insurance) is added. Employer contribution varies with the region, but there is no huge difference in this contribution. Here it can be seen that Vietnam had the lowest total labor wage/year which was recorded USD 1581 per year per worker which is more than two times less than in China [55].

Table 16. *Labor Cost Structure in Selected Economies (2014) (Adapted from China-briefing)[55]*

Annual Minimum Wage USD in Selected economies					
Country	**Annual Wage USD**	**Hourly Wage USD**	**Employer Contribution USD**	**Total Wage Cost USD**	**Percentage Difference**
China	2472	1.19	35%	3337.2	100%
Thailand	3012	1.21	5.20%	3168	95%
Vietnam	1296	0.64	22%	1581	47%

Vietnam is set to lower the corporate income tax (CIT) rate to 20% by 2016 to compete its competing countries such as China, which stood at 25% in 2014 [55].

4.3.7 Education, Skilled labor and its availability

Successful economic reforms in Vietnam during the last 25 years resulted in improvement of human capital development performance, life expectancy rose by ten years, gross national income increased by more than 3.5 times and human development index value increased by 40.55% which was highest recorded with ASEAN countries. However, human development index in Vietnam is still very low and ranked 127th out of 187 countries. In year 2012, expected years of schooling was recorded at 11.9 and mean years of schooling was 5.5 years in Vietnam, which was the lowest in ASEAN countries. Vietnam is applying below strategy, in order to improve access to education [52]:

- Expanding schooling and training system, improving infrastructure, increasing number of teacher to cover education needs
- Improve standards of training and school, and encourage young people into higher education
- Subsidize education in remote and poor areas in the country
- Expand distance education to whole country [52]

Vietnam has planned to achieve student's enrolment in primary school by 99%, 95% in secondary schools, 80% in higher secondary schools, and 80% for disables [52].

With the implementation of reforms after joining WTO in 2007, the proportion of unskilled workers reduced sharply from 61.7% to 39.38% in 2012. The number of workers

with basic and medium skills such as service workers, market sales workers, fishery workers, machine operators and assembly line workers have grown at much faster rates than occupations require higher skills. Due to the lack initiation of training and education by government, proportion of unskilled workers hardly changed from 83.7 % to 83.15% during 2007-2012. Most of the unskilled workers are trained by the employers themselves. Government of Vietnam has started investment in Public education and training institution. It is offering lucrative incentives as low-cost land, credit subsidies, and tax holidays to private and domestic sector to invest in technical vocational education and training [52]. [OECD 2013, Vietnam] According to CIA, estimated number of workforce in Vietnam was around 53 million people [7].

4.4 Textile Industry in Vietnam

4.4.1 Overview of the Vietnam Textile and Apparel Industry

Together with phones and mobile devices, textile and apparel has emerged as a main export sector of Vietnam in recent years. In year 2013, Vietnam exported apparel products to over 180 countries with turnover of USD 17.9 bn, which accounted for 13.6% share in total exports and 10% of national GDP of Vietnam. Vietnam achieved annual growth rate of 14.5% for the period 2008 to 2013, which makes Vietnam as one of the fastest growing countries in textile and apparel exports [56].

Indicator	Unit	Value
Number of Companies	Companies	6,000
Enterprises Scale	Workers	SMEs of 200-500 workers makes up for a large proportion
Company Structure based on ownership		Private (84%), FDI (15%), State-Owned (1%)
Company Structure based on operation		Sewing(70%), Spinning (6%), Weaving/Knitting (17%), dying (4%), supporting industries (3%)
Geographical Diversity of Companies		South (62%), North (30%), Central and Platue (8%)
Number of Employees	Workers	2.5 million
Average Income per worker per month	USD	206.23 (as per conversion rate on 28.07.2015)
Number of working days in a week	Day	6
Number of hours worked in a week	Hour	48
Value of Textile Exports in 2014		USD 17.9 Billion
Value of Textile Imports in 2014		USD 13.5 Billion
Main Export Markets		USA, EU, Japan, South Korea
Main Import Markets		China, South Korea, Taiwan
Major Export Products		Jackets, Shirts, Pants
Method of Production		CMT (85%), others (15%)
Lead Time	Day	90-100

Figure 32. *Overview of the Textile and Garments Industry in Vietnam (Adapted from fpts 2014, Vietnam)[56]*

As shown in above Figure 32, there were about 6,000 textile and apparel enterprises are operational in Vietnam in 2014, where more than 2.5 people were employed, which accounted for about 25% labor force in the industrial sector in Vietnam. As per statistics provided by VITAS, every USD 0.1bn of apparel exports creates jobs for 150-200 thousand employees, out of that 100 thousands were associated with direct manufacturing and 50-100 thousands were associated with other supporting businesses. Private enterprises makes up for 84% owner ship of T&G industry, followed by FDI 15% and state-owned enterprises by 1%. A vast majority (62%) of T&G industry was located in South-East, 30% in North, and only 8% in central Vietnam [56].

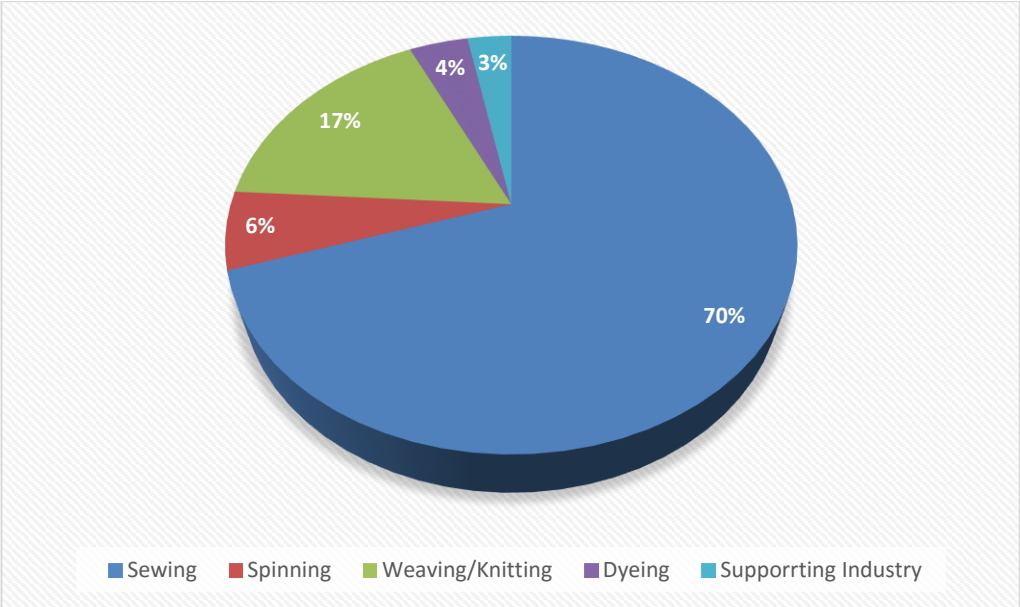

Figure 33. *Company Structure by Activities in Vietnam T&C Industry [Adapted from fpts, 2014] [56]*

As shown in Figure 33, garments enterprises accounted for 70% of total number of enterprises and CMT makes-up 85% of structure of operation Whereas, weaving enterprises were 17% and spinning industry makes 6% of total T&G industry [56].

In Vietnam, state owned enterprises share was 1% and 15% enterprises were established from direct FDI. Company structure by ownership in Vietnam T&G industry is shown below in Figure 34

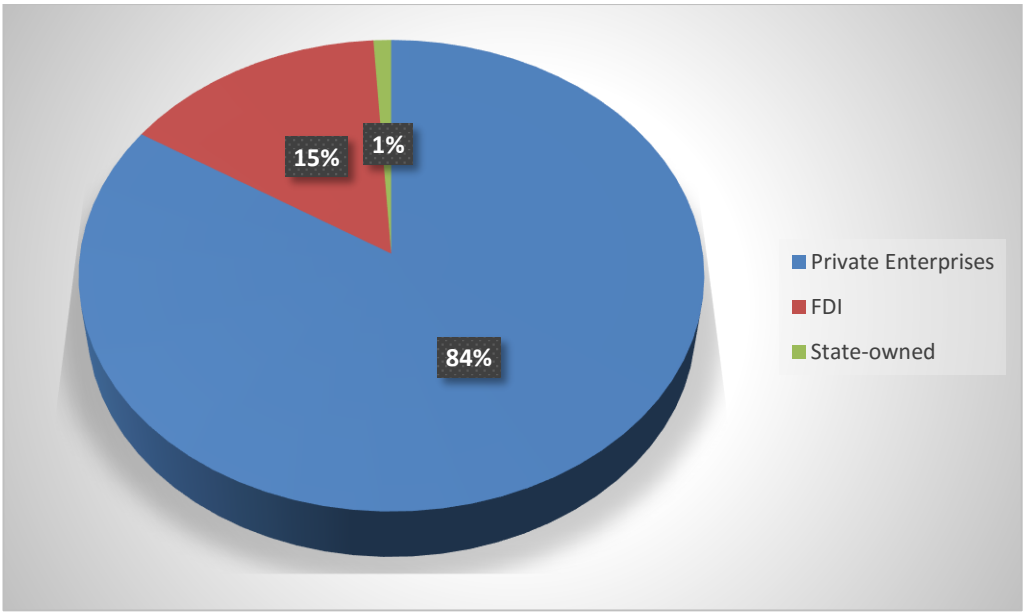

Figure 34. *Company Structure by Ownership in Vietnam T&C Industry [Adapted from fpts, 2014] [56]*

Table 17. *Development Goals and Orientation of textile and apparel industry in Vietnam for Year 2020 (adapted from fpts 2014)[56]*

Indicators	Unit	Year 2015	Year 2020
Revenue	USD billion	18-21	27-30
Export Turnover	USD billion	18	25
Labor	million People	3,500	5
Major Products			
1)Cotton	Tons	40,000	60,000
2)Fibers	Tons	710,000	950,000
3)Fabrics	Billion m^2	2	2
4)Sewing products	Billion Products	2.85	4
Rate of Localization	%	60	70

Government of Vietnam has set targets and goals for the developments of textile and apparel industry for year 2020. T&G products are set to achieve USD25 billion exports with 70% of raw material produced locally. It is expected that T&G sector will provide employment to 4.5 million people [56].

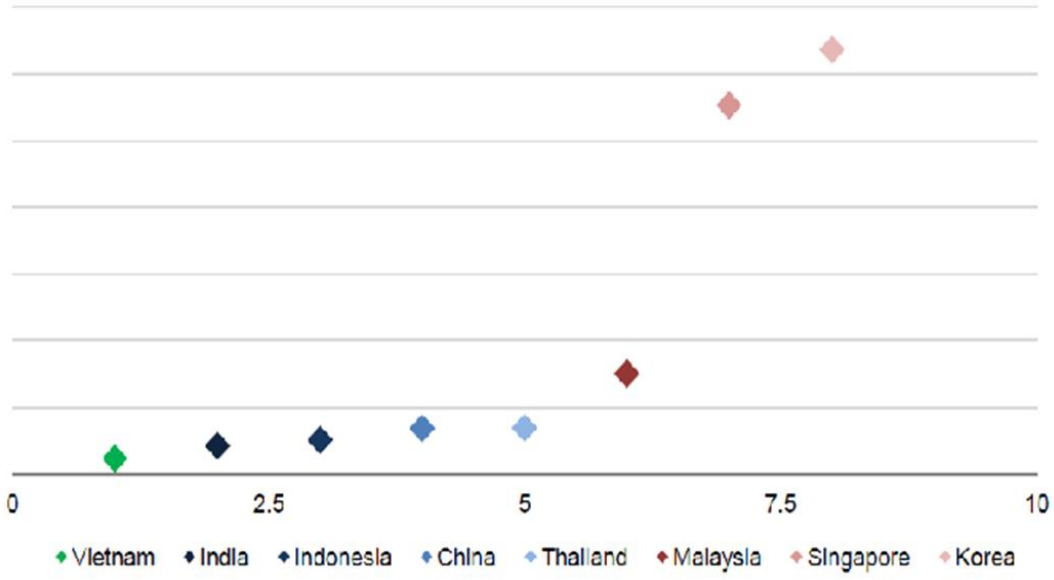

Figure 35. *Labor Productivity Index of manufacturing sector in 2013 (Source fpta, 2014) [56]*

Labor productivity is defined as "a ratio of a volume measure of output to a measure of input use. Labor productivity is a revealing indicator of several economic indicators as it offers a dynamic measure of economic growth, competitiveness, and living standards within an economy". Labor productivity is measured as dividing volume measure of output/measure of input use [59]. Vietnam scored only 2.4 points in labor productivity index, as compared to china and Indonesia which scored 6.9 and 5.2 respectively. This low score of is a big weakness of textile and garments industry in Vietnam [56]. Vietnam global

competitiveness rank was 18 with index score of 5.73 in 2013. However, Vietnam will improve its competitiveness index in next five years and will rank on 10th position with index score of 6.50 [60].

4.4.2 Exports of Vietnam Textiles and Garments Industry

Textiles and garments export volume of Vietnam increased significantly over the last 9 years and represented as the second largest export sector after mobile and phone devices. T&G exports recorded for USD17.9 billion and accounted for 13.6% of total exports of Vietnam with an increase percentage of 18.5%. If USD2.15 billion of fiber exports included in above value then fiber and garments total export value reached USD20.1 billion in 2013 [56]. Export value of Vietnam's T&G industry in period 2005 to 2013 is shown below in Figure 36

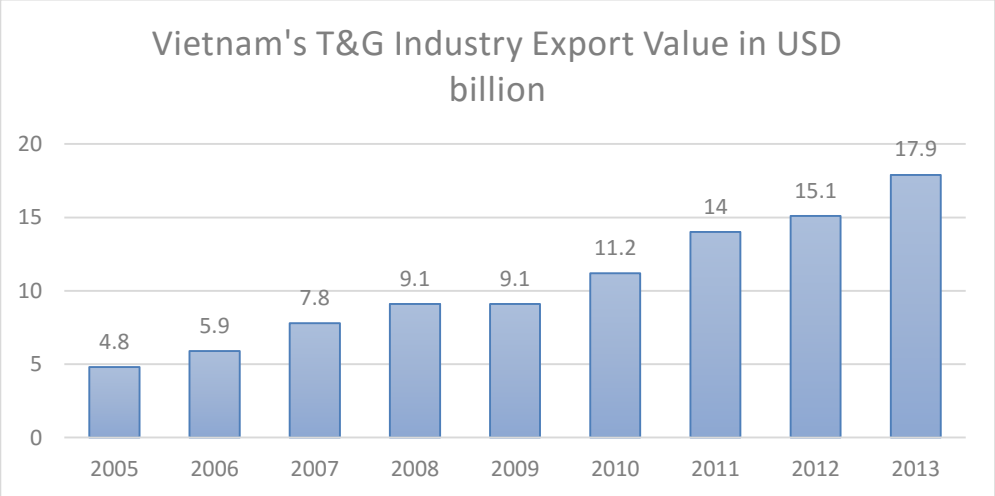

Figure 36. *The Export Value of Vietnam's Garment (USD billion) [Adapted from fpts 2014, Vietnam] [56]*

Exports value of FDI enterprises has shown a higher turnover than that of domestic enterprises thoroughly over the period 2005 to 2013. In 2005, the turnover of FDI enterprises was USD 2.7bn and it reached USD10.7bn in 2013 with increasing share value of 18.5% and domestic enterprises accounted for USD 7.3bn in same year, which was USD3.4bn lesser than the that of FDI enterprises [56].

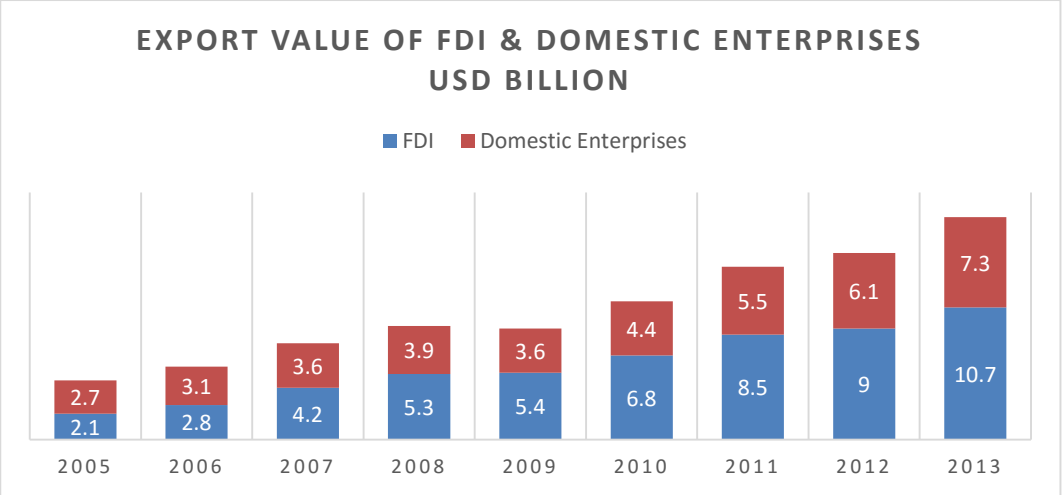

Figure 37. *Export Value of FDI and Domestic Enterprises (USD Billion) [Adapated from fpts 2014, Vietnam] [56]*

It can be observed from below Figure 38 that monthly export turnover has increased continuously over the last 9 years. In 2005, the average turnover was only USD 401 million/month and reached USD1.496 million/month in the end of 2013. In 2013 monthly export turnover of T&G exports was USD232 million/month higher than that of 2012, which shows that the exports of T&G are increasing sharply [56].

Figure 38. *Monthly Export Value of T&G Industry of Vietnam (USD million) [Adapted from fpts 2014, Vietnam] [56]*

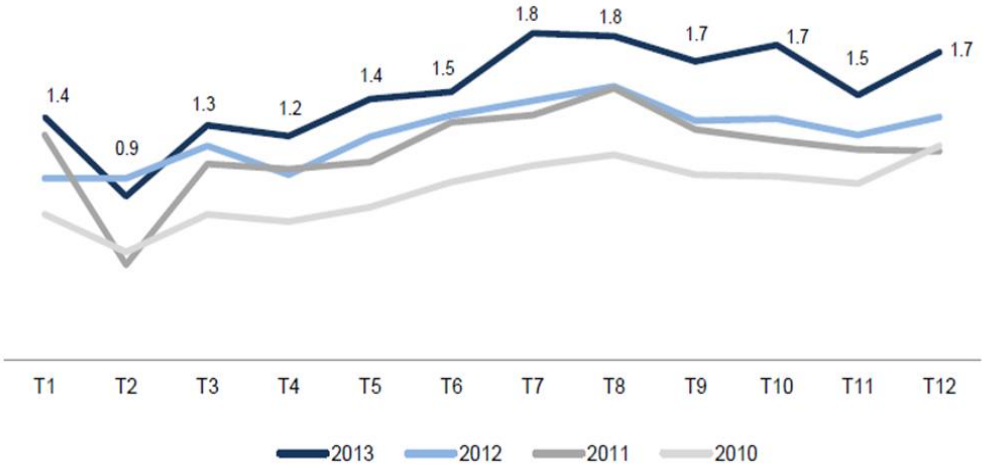

Figure 39. *Monthly Export Value of Textiles and Garments of Vietnam (USD billion) [Source fpts 2014, Vietnam][56]*

Monthly export value of T&G products of Vietnam is shown above in Figure 39. Due to the seasonal demand and orders, apparel exports value is often low in the first months of the year, it starts increasing in May and reaches its peak in August and then again decrease in last months of the year. In 2013, exports turnover reached USD 1.82bn, which is significantly higher than that of 2012. This is a clear indicator that T&G exports turnover of Vietnam is increasingly very fast [56].

Table 18. *Exports Structure of Vietnam in Major Markets (%) (Adapted from fpts 2014, Vietnam)[56]*

Vietnam's T&G Products Export Structure		
Market	**2012**	**2013**
US	50%	48%
EU	17%	15%
Japan	13%	13%
Korea	7%	9%
Others	13%	15%

Vietnam's T&G products export by region can be seen in Table 18 . Four biggest partners for T&G exports of Vietnam are USA, EU, Japan and South Korea. Exports to these markets reached USD 15.3bn in 2013, which accounted for 85.5% of total export turnover. USA particularly is the biggest export markets of apparel exports of Vietnam and its share was 50% and 48% in 2012 and 2013 respectively. Meanwhile, exports to South Korea were increasing and its % value of exports changed by 2% in 2013 [56].

Table 19. *Categories of Apparel Products for Export of Vietnam (Adapted from fpts 2014, Vietnam)[56]*

Categories of Apparel products for Export			
Categories	**2013 USD million**	**2012/2013 (%)**	**2013 (%)**
Jacket	3,877	19.6	21.6
T-shirt	3,758	23.7	20.94
Trouser	3,011	25.8	16.78
Dress shirt	1,016	14.6	5.66
Others	6,285	3.2	35.02

Table 19 shows categories of Apparel Products for Export of Exporting. Vietnam apparel products were largely jackets, t-shirts, trousers, and dress shirts. In 2013, export value of jackets reached USD3.88 billion increasing by 19.6% and total export value accounted for 21.6%. T-shirts and trousers also shown a tremendous growth and growth rate was recorded at 23.7% and 25.8% respectively [56].

4.4.3 Imports of Textile and Garments Industry of Vietnam

As the structure of textiles and garments industry in Vietnam was composed of 85% CMT enterprises, so Vietnam's T&G industry required to imports raw material in the form of fiber and fabric. With the increase of exports of textiles and garments, imports has also increased over the last many years. In 2005, total raw material imports were recorded at USD 6.3 billion and in 2013 it reached a record value of USD 13.547 billion and it was an average increase of 19.2%. Fabric imports reached USD 8.3 billion in 2013 and accounted for 62% of total imports of T&G of Vietnam [56]. Textile and raw material imports of Vietnam's T&G industry is shown below in Figure 40

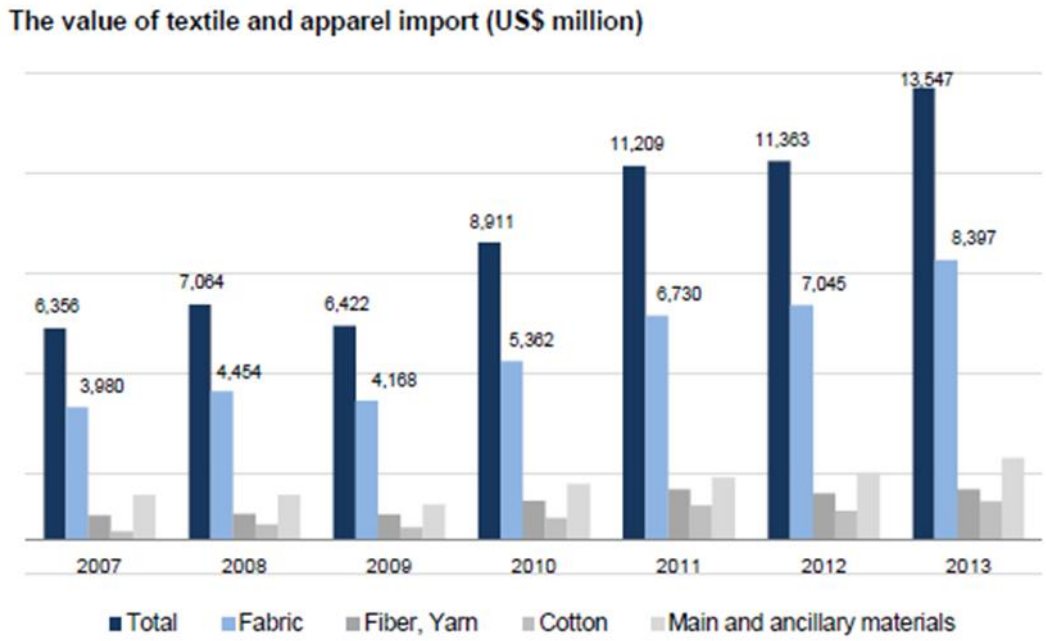

Figure 40. *Value of textile and Apparel Imports of Vietnam (USD million) [Source fpts 2014, Vietnam] [56]*

Cotton imports in 2013 reached 589 thousand tons with the increasing share of 13% in quantity and valued at USD1.71 bn. USA, India, Australia, Brazil and Pakistan were the major importing countries of cotton and USA held the biggest share which accounted for 39.3% in total cotton imports [56].

Import of natural fiber and yarn in 2013 reached 696 thousand tons, equal to USD 1.52 billion. Yarn was mainly imported from Taiwan (32% share) and China (30.8% share) followed by Thailand and South Korea. Fiber was mainly imported from Taiwan and Thailand with 40.6% and 21.9% share respectively [56].

4.4.4 Value Chain of Vietnam Textile and Apparel Industry

Value Chain of Vietnam Textile and Apparel Industry is shown below in Figure 41

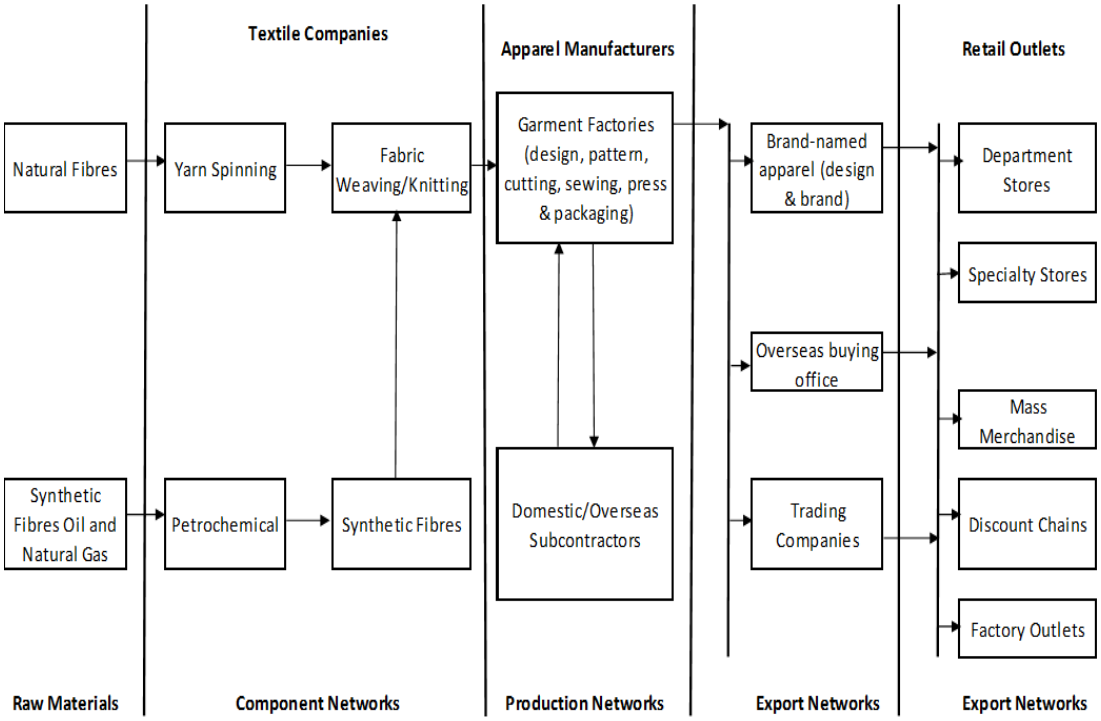

Figure 41. *Value Chain of Vietnam's Textile and Apparel Industry [Adapted from fpts 2014, Vietnam][56]*

Supply of Cotton, Fiber and Yarn

Vietnam fulfils only 2% demand of cotton fiber produced locally by cultivating 10,000 hectares of cotton plant. Main reason for underdevelopment of the cotton and fiber industry due to the lack of favorable climate for cotton cultivation. In 2013, total fiber consumption recorded for 100,000,0 tons and out that 600,000 tons cotton fiber was consumed. 220,000 tons of synthetic yarn was imported in 2013, which accounted for 54% of total synthetic yarn consumption [56].

Spinning Industry Statistics in Vietnam

An increasing trend of increase in production of yarn can be noticed in below Table 20

Table 20. *Statistics on Vietnam Spinning Industry (2013) (Adapted from fpts 2014, Vietnam)[56]*

Spinning Industry in Vietnam as of 2012			
Items	**Year 2010**	**Year 2011**	**Year 2012**
Number of spindles	3,650,000	4,500,000	5,100,000
Number of rotor	103,348	103,348	103,348
Total production of yarn (tons)	514,000	620,000	680,000
Export of Yarn (tons)	336,000	384,000	415,000
Fabric production (billion m^2)	1	1	1
Amount of imported fabric (billion m^2)			6

There were mainly two factors contributed to this increase, firstly an availability of cheap labor cost and land lease was utilized and secondly an increased demand of yarn in the world market. However, majority of the yarn produced was exported due to the low consumption of yarns in local weaving and knitting. Over 61% of yarn produced was exported, mainly China. In 2012, there were 5.1 million ring spindles spinning the yarn. The consumption of fabric in Vietnam's T&G industry was 7 billion meters and only 1 billion meters of fabric was produced locally. Vietnam had to import 6 billion meters of fabric to meet the demand of the garments industry [56].

Weaving, dyeing and finishing Industry in Vietnam

Role of Weaving and dyeing industry is very significant, as it determines the cost and quality of the garment produced. The consumption of fabric Vietnam's T&G industry was recorded at 7 billion meters, but only 1 billion fabric was produced locally which provided only 14% of demand, so 6 billion meters of fabric had to be imported. Vietnam has the capacity to dye and finish 80,000 tons of woven and knitted fabric. As the quality of fabric did not meet the required quality standards of garments industry, so it is mainly used for the domestic market. Main reasons for the weakness of weaving/knitting and dyeing industry are below:

Although Vietnam's government encourage establishment of weaving and dyeing plants, but it contradicts to its strict pollution control and environment protection laws.

Knitting and weaving industry was using obsolete technology and enterprises were generally small in size.

Lack of institutions and skilled labor to carry out manufacturing process of weaving, dyeing and finishing [56].

4.4.5 Export, distribution, supporting and marketing activities

Export

Vietnam's T&G industry was highly dependent on foreign traders especially from Hong, Kong, Taiwan and South Korea and they play a very important role in its value chain. Retail businesses are mainly from USA, EU and Japan and they own top brands and designers outlets. Large retailers mainly depends on buying houses to develop supply network and reduce transaction cost. Foreign firms mainly deals directly with the traders and buying agents in China, Hong Kong, Taiwan and South Korea, therefore, T&G industry in Vietnam were highly dependent on foreign and small traders due to lack of direct contacts with foreign brands and importers. In other words, Vietnam is working as outsourcing contracts for regional manufacturers [56].

Marketing & Distribution

As Vietnam T&G industry was mainly working as a regional outsourcing base due to the cheap labor, so marketing and distribution was mainly carried out by buying companies. Vietnam was a base for CMT and FOB exports.

In order to attract foreign brands and importers to place orders in Vietnam T&G Industry, Textile Fairs and Exhibition are held. Also textile and garments machine manufacturers represents their products, so Vietnam T&G industry gets the knowledge of latest developments and innovations in the industry and new contracts are made to buy the technology. The largest Textile and Garments fair is held with the name of "Vietnam International Textile and Garments Industry Exhibition (VTG)" concurrently with "Vietnam International Textile and Apparel Accessories Exhibition". This exhibition was held in 2014 from 29th of October to 1st of November 2014. These exhibitions were organized by the Ministry of Trade-Vietnam. Over 170 companies with machine manufacturing background represented in this fair from China, Hong Kong, India, Japan, Korea Singapore, Taiwan, Turkey, USA and Vietnam. Over 10, 6393 professional buyers and visitors registered in that exhibition. In 2015, VTG will be held on 21st to 24th October 2015 [53].

4.4.6 Vietnam Textile and Garments Supportive Institutions

The Vietnam Textile and Apparel Association (VITAS) is a non-government association working in the field of textile and garment industry in Vietnam. VITAS has more than 1000 member organizations, of which most of them are state-owned and privately owned firms as well as a small number of foreign owned enterprises. VITAS promotes investment and business cooperation as well as exchanges information among member

organizations, and the foreign organizations. Furthermore, VITAS represents its members to the State and Government bodies in policy making and decisions relating to the development of the Textile and Garment industry in Vietnam. The VITAS represents textile and garment industry of Vietnam in international organizations and act as a link of cooperation between the domestic industry and global organizations related to this sector. The VITAS also supports foreign companies in establishing links with local manufacturers [57].

The Vietnam Textile Garment Group (VINATEX) is the biggest state–owned group of companies in the field of textile and garment in Vietnam. VINATEX is also a member of VITAS. It is comprised on nearly 120 sub-companies, which produce textile garments and run commercial services. VINATEX also conduct research and organize training in T&G industry [58].

4.4.7 Textile and Garments Enterprises of Vietnam Performance and Incomes:

Among listed T&G businesses, Thanh Cong Textile Garment Company (TCM) earned the highest revenue in 2013 of VND 2.544 billion and growth rate achieved was 12% over the same period. Saigon Garment Manufacturing and Commerce Joint Stock Company (GMC) recorded the highest growth in its revenue with 16% in 2013 and revenue earned was VND 1,229bn, thus making it the second largest enterprise in Vietnam [56]. Net revenue of Vietnamese enterprises is shown below in Figure 42

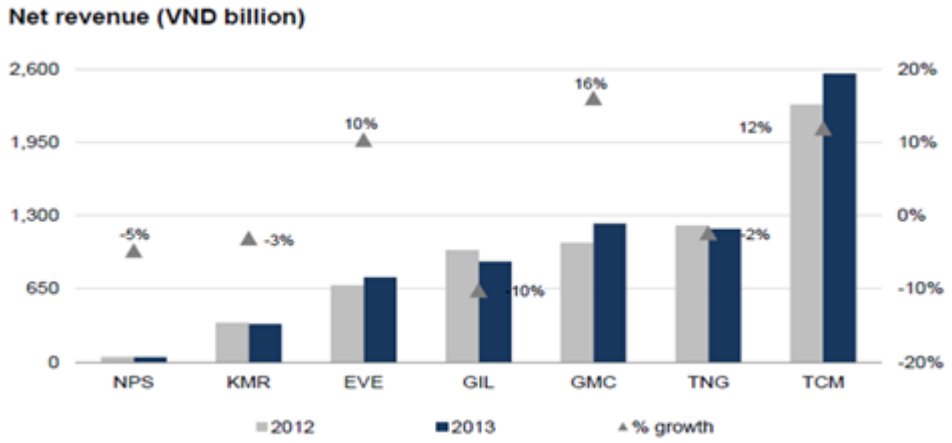

Figure 42. *Performance of listed Textile and Apparel Businesses in Vietnam [Source fpts 2014, Vietnam] [56]*

Net profit of enterprises in 2013 increased due to the favorable export situation. TCM earned the highest profit after tax among all listed enterprises. Everpia Vietnam (EVE) had the highest net profit margin of 13%. Below figures state that the textile and garments

enterprises earned a significant growth in year 2013 and earned good net profit margin. Also below figures in Figure 43 show that the investment in T&G industry in Vietnam is highly profitable and offers sustained growth [56].

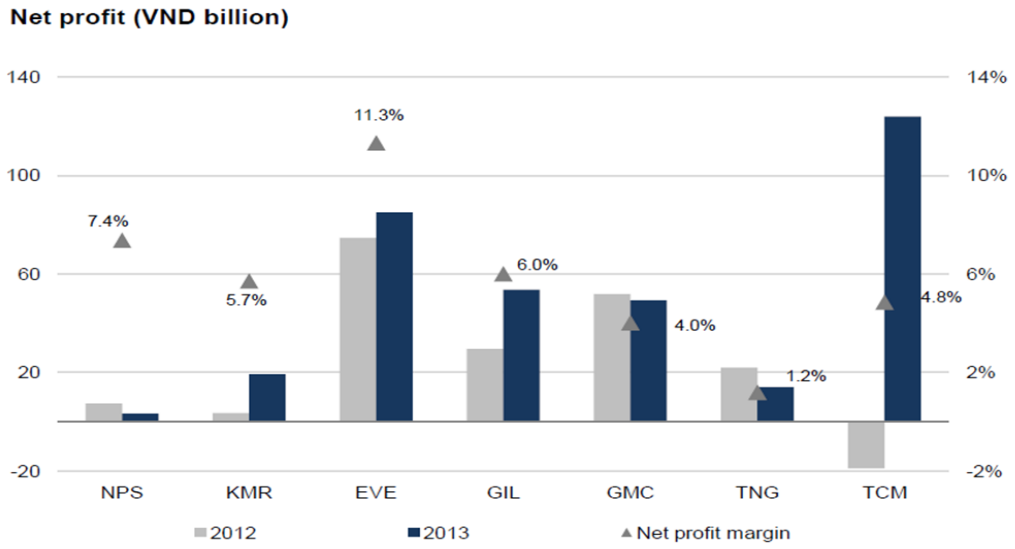

Figure 43. *Net profit of listed Textile and Apparel Businesses in Vietnam [Source fpts 2014, Vietnam] [56]*

4.4.8 Future Projects and goals of Textiles and Garments industry in Vietnam

Le Trung Hai, President of Vietnam National Textile and Garment Group (VINATEX) said that "The garment and textile industry of Vietnam is aiming to reach a localization rate of 60% by 2015, and thereby reduce dependence on imported inputs. At present the Vietnamese Clothing Industry heavily depends on imported raw materials and increasing the localization rate is important as Vietnam is currently negotiating some trade agreements, including the 12-nation Trans-Pacific Partnership (TPP) agreement. These agreements would benefit Vietnam only if the industry used domestic raw materials. Besides raising the localization rate, Vietnamese apparel and textile firms are also aiming to increase the Free on Board (FOB) rate to 50 percent by 2015 from 38 percent at present " [54].

4.4.9 SWOT Analysis of the Vietnam Textile and Garments Industry

Strengths

- Vietnam had political stability and social safety, making it attractive for traders and foreign investors.

- T&G industry was highly prioritized By the Vietnamese Government, it encourages foreign investment by offering incentives and exemptions of corporate income tax.
- A large work-force of T&G industry
- Labor costs were low and skills were high.
- Vietnam apparel products meet the quality standards required by USA and EU.
- Vietnam was an important exporter to USA and EU
- Building close relationships with many importers, large consumption corporations around the globe [56].

Weaknesses

- High CMT oriented industry, low FOB based exports and underdeveloped design capabilities.
- No diversity in products and not able to handle large quantity orders with technical high quality requirements.
- Low localization rate of fabrics, yarns and dyeing. Mostly dependent on imported fabrics and raw materials.
- Small scale businesses are unable to achieve economy of scale and supply was limited to a certain number of markets
- Poor management and technical skills, labor productivity was not high.
- Lack of training and education of design and production teams to produce high quality products,
- Marketing capabilities are limited [56].

Opportunities

- Vietnam was attractive for low-cost garment manufacturing, in future require new opportunities and resources to capital, advanced and modern machines and equipment, advanced management experience, and skilled workforce.
- Better access and integration to the market and industry.
- Five years plans by the government if Vietnam and economic reforms had produced attractiveness for investment, new markets and partnerships.
- Improved living standards of 91.5 million people in Vietnam offered the opportunity for textile and apparel businesses.
- Competitiveness in Vietnam improved and business environment for FDI will improve after the agreements of TPP and EU-Vietnam FTA [56].

Challenges

- Underdeveloped supporting industries of T&G industry, raw materials were imported, and rate of processing is high.

- Environment policy was not favorable for dyeing and finishing plants, legal process is immature, and capacity of staff involved in trade promotion is weak.
- Many markets use barriers for technology transfer. Many Vietnamese enterprises are small and medium scaled and do not have sufficient funds to pursue anti-dumping lawsuits, resulting in losses in the trade disputes.
- FDI creates significant competition among local businesses in orders, material inputs, labor et cetera [56].

4.5 Trade Agreements

4.5.1 Trans-Pacific Strategic Economic Partnership Agreement (TPP)

TPP is a free trade agreement with the goal of integrating the economies of the Asia-Pacific region. There are currently 12 members in this agreement which includes Vietnam, USA, Canada, Mexico, Peru, Chile, Brunei, Singapore, Malaysia, Australia, New Zealand and Japan. GDP scale of TPP was estimated around USD 26,000 billion and accounted for 40% of global trade value in 2013. Population of member countries stood around 792 million people and trade ratio was around one third of global trade. Vietnam was exporting textiles and apparel products to USA with an average tax rate of 17-18%, TPP is expected to reduce the tariff gradually to 0%. It is expected that there will be a growth of 12-13% per year in T&G exports to USA and will reach USD 30 bn in 2025. It will also be beneficial for Vietnam for its raw material and fabric imports for T&G industry. It is projected that the T&G industry of Vietnam will achieve 60% localization rate in 2015 and 70% in 2025 [56].

4.5.2 EU-Vietnam FTA

The EU is an important T&G trade partner of Vietnam, Vietnam exported T&G products of USD24.3bn in 2013; which accounted for 19.2% of total export of the country. Vietnam largest exports to EU were footwear, garments, coffee, seafood, and furniture. Merchandise exports from Vietnam to EU are subjected to an average import duty of 4.6%. In absence of FTA with EU, Vietnamese exports to EU are expected to grow 75% in 2020 and with the adoption of this agreement, exports will grow by 110%. Adoption of this agreement will reduce the import duty on Vietnamese apparel exports to EU from 11.6% to 0%. Vietnam major apparel export products are male and female suits, jackets and knitwear. This agreement will be effective in 2015 [56].

4.6 Policies and legalities of Vietnamese Government to the T&G Industry

- In February 2013, the Prime Minister of Vietnam approved a plan for the restructuring VINATEX for the period 2013-2015. According to the plan, the structure of fiber, weaving, dyeing and sewing will be enhanced to improve the value chain and supply chain of raw materials.
- VND65.6bn was funded by the government in 2014 to support the training of human resources for textile and apparel industry.
- Vietnamese government is offering 0% tax rate on imports of machinery and raw material for T&G industry.
- Manufacturing, trades and services companies are liable to pay CIT. Standard rate of CIT is 25%, however special CIT rate of 10% and 20% are available for companies investing in certain geographical areas, economic zones or hi-tech parks [56].

5. DISCUSSION AND CONCLUSION

This part of thesis, it has been discuss the future of global textile and clothing industry, recommendations for Finnish brands and importers. In the end, conclusion has been made based on the analysis of the data discussed in previous part of thesis.

5.1 Future of Textiles and Garments Industry with perspective to Vietnam and China

In 2013, world exports of textiles were valued at USD 776 Billion of which textile valued at USD 306 Billion and of clothing at USD 460 Billion, representing 1.7% & 2.5% respectively of total world merchandise trade. EU was the largest consumer market, reaching USD 289 billion, while China was the largest exports of T&G products with USD 284 billion [2]. Developed countries such as EU, US, and Japan focused on highest-value stages of textiles and apparel value chain, which are designing, marketing and distribution. Meanwhile, manufacturing activities were concentrated in China, India and other developing countries such as Bangladesh, Pakistan, Vietnam, Indonesia et cetera. The connection between manufacturers and the end-users created by trading agents from Hong Kong, South Korea, and Taiwan was a distinctive characteristic of global textile and apparel sector [61]. Global textile and apparel sector is furcated to develop following trends

- Growing of compound annual growth rate (CAGR) of 5% per year and will reach USD 2100 billion by 2025.
- The growth of developed countries will slow down and driver of growth will be determined by big emerging economies like China and India.
- Textiles and apparel manufacturing will be relocated to emerging economies like Bangladesh, Laos, Cambodia and Vietnam.
- Global textile and apparel chain value will attract an investment of USD 350 billion over the period 2012-2025 [61].

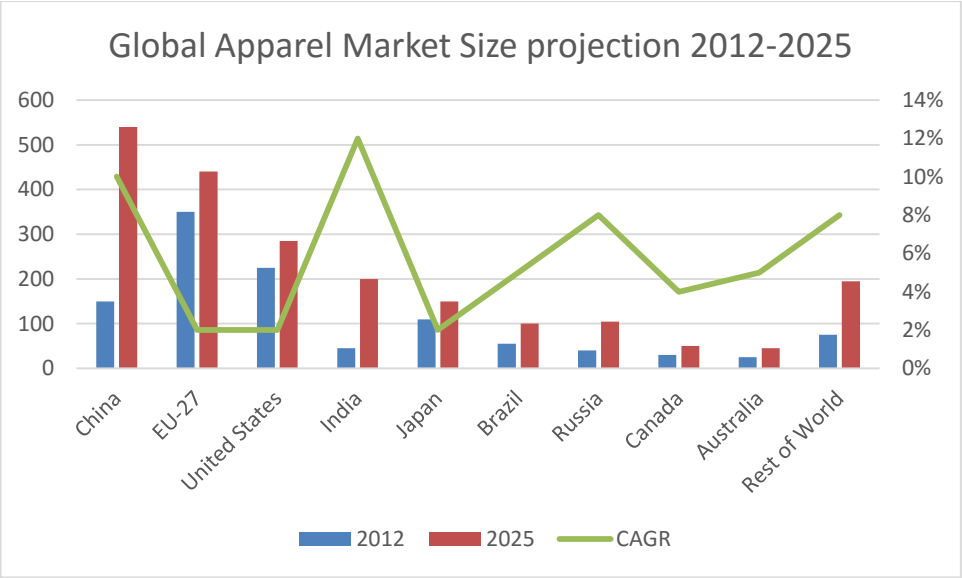

Figure 44. *Global Apparel Market Size Projection from 2012 to 2025 (Adapted from Wazir)[61]*

Above Figure 44 shows the global apparel market size projection from 2012 to 2025. Global apparel market exports is forecasted to reach USD 2110 billion by 2025 with an average of about 5% per year of compound average growth rate (CAGR) for the period of 2012-2025. Largest consumer market would be EU, USA, China and Japan, which will be have one third of world's population and will account for 75% of global apparel value. China is projected to become the largest market by 2025 with a value of USD 540 billion, equivalent of 10% per year for the period of 2012 to 2025. Brazil, Russia, Canada and Australia will appear as an increased share in global apparel consumption. India is forecasted to exceed the Japan and Brazil to become the 4th largest scale in the world with the value of USD 200 billion with CAGR of 12% per year [61].

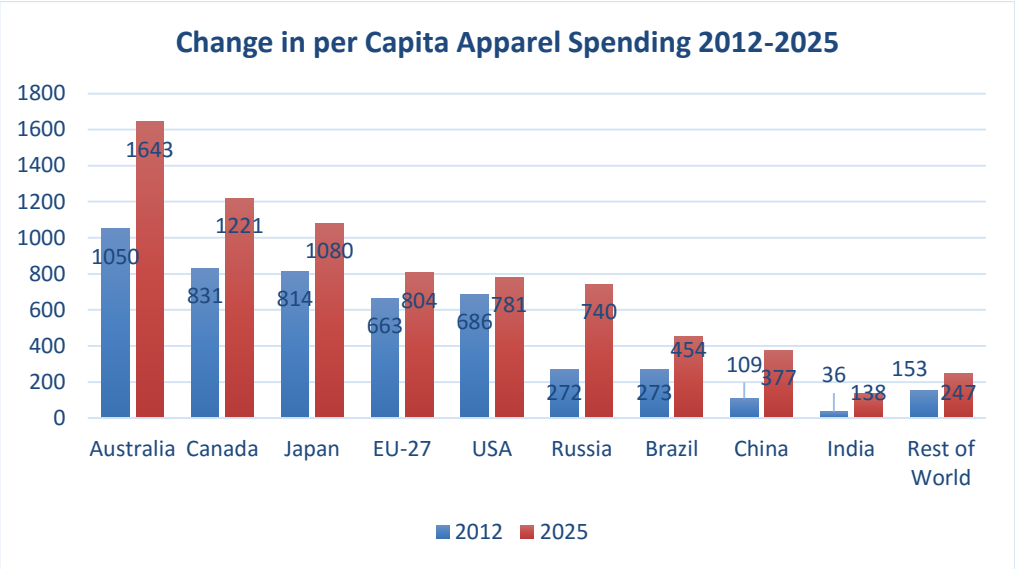

Figure 45. *Apparel Spending per capita from 2012 to 2025 USD/person (Adapted from Wazir)[61]*

Apparel spending per capita in the world will reach USD 247 in 2025. Figure 45 shows the forecast for apparel spending per capita from 2012 to 2025. There is a significant difference in apparel spending per capita between developed and developing countries. By 2025, Australia will have the highest per capita spending of USD 1643 followed by Canada with USD 1221, whereas EU will be spending USD 804 per person on apparel products [61].

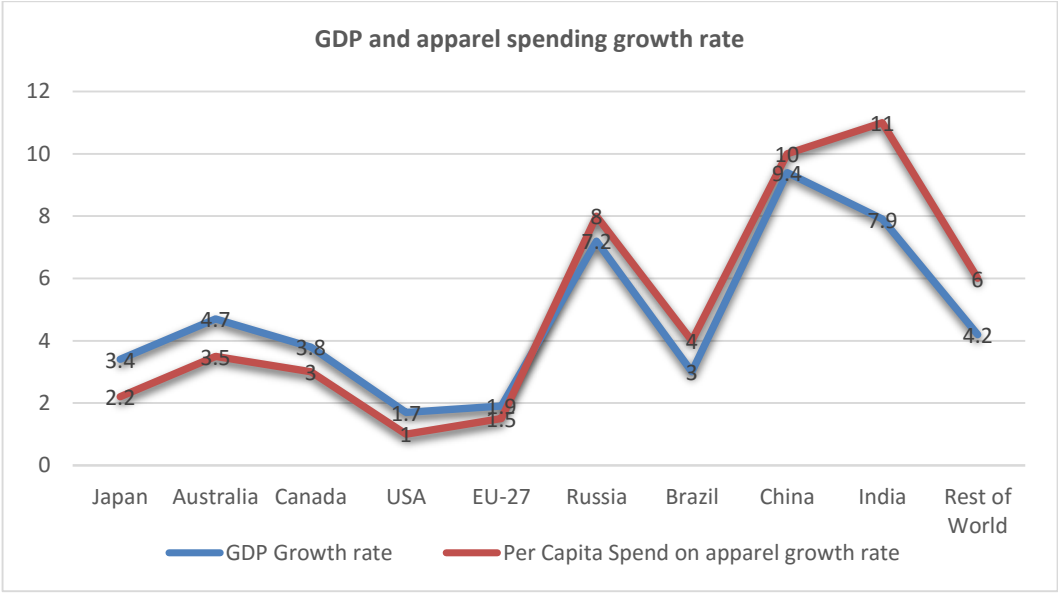

Figure 46. *Annual GDP and per capita spend on apparel growth rates in selected markets 2012 to 2025 (Adapted from Wazir)[61]*

As shown in Figure 46, developing economies will have more growth rate of apparel spend per capita. However for developed countries, the growth of apparel spend per capita will be lower than the growth rate of GDP [61].

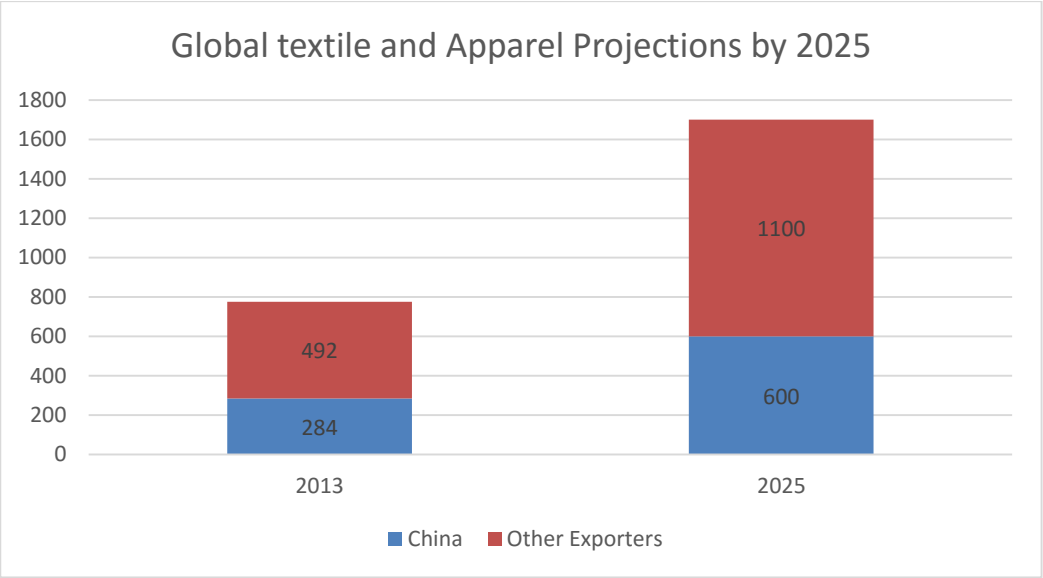

Figure 47. *Forecast for the Global Textile and Apparel trade until 2025 (USD billion)(Adapted from Wazir)[61]*

Global textile and apparel trade value is forecasted to increase from USD 776 billion in 2013 to USD 1700 billion in 2025 with CAGR of 6.5% per year. By 2025, percentage of Chinese trade value over total global T&G trade value is expected to decline from current portion 37% to 35% by 2025. The decline in Chinese share in global textile and apparel trade will generate an opportunity for the manufacturing of other countries. Bangladesh and Vietnam will be the important countries to benefit from this change [61].

Vietnam recorded an average growth rate of 14.5% per year for the period of 2008-2013. Vietnam is one of the fastest growing of growing countries for the manufacturing of textile and apparel sector. Vietnam is projected to develop below trends in textile and apparel sector [56].

- Free trade agreements such as TPP and EU-Vietnam FTA are expected to be adopted in 2015.
- Vietnamese CAGR growth rate is expected to stand at 9.8% per year and by 2025 Vietnam is projected to achieve textile and apparel products export value of USD 55 billion after the adoption of TPP and EU-Vietnam FTA.
- Import of raw material purchase will shift from China, Taiwan and Korea to TPP member countries.
- Vietnam will improve the share of free-on-board, original design manufacture (ODM), and original brand manufacture (OBM).
- Vietnam will increase the localization ratio of raw material to 70% by 2020.
- Flow of FDI will increase from neighboring countries to exploit the benefits of low-cost manufacturing, trade agreements and infrastructure [56].

5.2 Recommendations for Brands & Importers in Finland

Finland has a small share in global textile and apparel trade, however Finnish brands and importers have a significant role in manufacturing and services industry in Finland. Finnish brands are facing tough competition from foreign brands which offer fast-fashion and a vast range of textiles and garments products, also these foreign brands have strong brand image and offers lower price tags. In order to compete foreign brands, Finnish brands and importers have to distinguish themselves in-terms of price, product range, supply chain and brand image et cetera.

In 2014, Finland imported Euro 1920 million worth of textiles and clothing products from the world. The value of textiles in imports was Euro 522 million which makes up 27% share and clothing imports were recorded at Euro 1420 million which makes 73% share in total textiles and clothing imports [15]. Here it can be understood that clothing imports is the most important area to focus for Finnish brands and garments industry, as employment in garments sector in Finland is decreasing over the year due to high labor cost, Finnish companies have to rely on imports of garments products from low cost manufacturing countries. Chinese share in garments imports of Finland was the highest in 2014 with 38% in total clothing imports and a value of Euro 539.6 million Euros [15]. As shown in Figure 27 GDP per capita income is increasing in China and in coming years it will increase more. So, Finnish companies have to plan a head to overcome the cost of product. In my opinion due to small quantity of orders, Finnish companies are or will be facing many problems in sourcing from China such as

- High costs, due to small order quantity.
- Limited availability/selection of suppliers
- High costs due to capacity booking
- Chinese companies holds the negotiation power for in terms of price, production, delivery, and shipping terms.
- Chinese manufacturers are reluctant to accept product development and sampling.
- Often Finnish companies face communication and English language problems, which results in delays and errors.

To overcome above issues and sustain its business, in future Finnish companies have to find the alternate to China. In recent 8 years, Vietnam has emerged as a key player in textile and garments manufacturing. Although Vietnam exported Euros 12 million worth of textiles and garments products to Finland in 2013, with an increase of 62% as compared to 2012, but there is an expectation that this volume will increase in coming years [56]. Vietnam offers and will be offering in future many advantages over China for textiles and garments sector enterprises of Finland such as

- Low cost of product and production.

- Vietnam has more than 6,000 enterprises of which large proportion makes up of small and medium scale enterprises, which can accept orders from small to large quantities, see Figure 32. 85% of enterprises were associated with garments sewing in Vietnam.
- Vietnam produces high quality garments, which achieved the required quality standards required by European companies, see 4.4.9.
- Vietnam textiles and garments industry manufacture a wide variety of garments products such as Jackets, Shirts, pants et cetera, see Figure 32.
- Currently, brands and companies in Europe are subject to pay 12% duty on imports of clothing products from China and several other countries. However, EU-Vietnam Free Trade Agreement (FTA) is most likely to be adopted in 2015, after the adoption of this agreement, garments and textile imports from Vietnam will be subject to 0% import duty in EU. This way, import costs of garments from Vietnam will further decrease and Vietnam will become more attractive as a supplier for garments products 4.5.2.

Table 21. *Costs and shipping time from China and Vietnam to Finland[63]*

Origin	Hamburg		Helsinki	
	Shipping Time (Days)	Destination Cost (Euro) 20' DC	Shipping Time (Days)	Destination Cost (Euro) 20' DC
Shanghai	34	1183.5*	41	1183.5*
Ho Chi Minh	28	1183.5*	36	1183.5*
* excluding Harbor Dues, which are Euros 3.14 per 1000 Kg				

- As shown above in Table 21 shipping costs from Shanghai (China) and Ho Chi Minh (Vietnam) to Helsinki are equal at Euros 1,183 (excluding harbor dues). However, the significant difference in sourcing from Vietnam is the saving of shipping time of 5 days as compared to China. It takes 41 days to ship from China to Helsinki, but it takes only 36 days if shipped from Vietnam [63].
- Vietnam offers several incentives on investment in Vietnam as well as tax reductions and exemptions in various export processing zones, zero percent export duty, zero percent duty on imports of machinery and raw material for export oriented manufacturing, corporate income-tax will be lowered from 25% to 20%. It will benefit those companies who plan to establish CMT plant in Vietnam.
- English language is the second most spoken language in Vietnam, which provide ease of understanding and communication with Vietnamese garments manufacturers.
- Currently, Vietnam imports majority of the fabric and raw material from China, Hong Kong, Taiwan, and South Korea. In coming three years, localization rate will be taken to 70% which currently stood at 50%. Also, with the adoption of TPP agreement, Vietnam will shift the import of raw materials and fabrics to TPP

member countries, which will further reduce the price and manufacturing lead-time.

- Most importantly, Vietnam will serve an alternate to the sourcing of textile and garments products over China, and Finnish companies can achieve the power of negotiation by working with Vietnamese companies and can better plan and negotiate to strengthen its policies, goals and targets.
- Finnish brands and retailers can sought help from VINATEX and VITAS for searching a suitable supplier for the sourcing of garments in Vietnam.

5.3 Findings

The research questions were represented in 1.2, the answers to the research questions are presented below.

1. What is the cost benefit for choosing Vietnam over China?

Textile and clothing manufacturing is a highly labor intensive process and there is a limitation for the automation of manufacturing process, so labor cost plays an important role in the final cost of the product. As discussed in Table 16, the total wage cost per labor per year in China was USD 3337.2 per year, while Vietnam had USD 1581 per labor per year, which is significantly low. Lower labor costs certainly effects the final price of the product produced in any country and hence the production cost in Vietnam will be much cheaper in Vietnam than China. Also it is predicted that the GDP per capita income in China will increase sharply by many folds in coming years. This will make the manufacturing of textiles in clothing in China very expensive and Vietnam will serve an alternate to China for low-cost manufacturing. Also, as shown in Table 14 the imports costs in Vietnam was USD 610, while China had USD 823. Vietnam had an edges over China for cost of imports and it will benefit the brands and retailers looking for CMT of their products.

2. What are the policies of Vietnamese government for textiles and garments industry?

The textile and clothing industry was the second largest manufacturing industry in Vietnam in terms of export value and provided the employment to more than 2.5 million workers. Due to above mentioned facts, textiles and clothing industry is very important for the economy of Vietnam and the government of Vietnam gives it great importance. The government of Vietnam encourages FDI in textile and clothing industry and offers numerous incentives to foreign companies such as 0% import duty on imports of textile and clothing industry machinery, tax reductions and evasions in setting-up manufacturing units in specific locations of the country, offers 0% export duty for exports of textile and garments products et cetera. Vietnamese government had initiated training of workforce for textile and clothing industry, which will improve the competitiveness and labor output. It has planned to lower the corporate income tax from 25% to 20% in future. Vietnam is aiming to achieve export value of textile and garments products to USD 55 bn by 2025.

3. What are the dynamics and structure of textiles and garments industry in Vietnam?

An overview of the Textile and garments industry in Vietnam is shown in Figure 32. T&G industry is vastly owned by private sector making 84% share and FDI owned 15% firm, while state owned about 1% firms. Most of the T&G industry (62%) were located in South and 30% industry was located in the North of Vietnam. As major seaports in Vietnam are located in South, so it reduces the in-land transportation time and costs. Majority of the

firms (70%) firms were related to the sewing operations, while knitting and weaving industry were making only 17% share. Vietnamese T&G industry majorly produced apparel products such as jackets, shirts and pants et cetera. Thus apparel industry making the largest industry in T&G sector in Vietnam. As discussed in 2.2 clothing products trade was valued at USD 306 billion in 2013, which is significantly higher than textile products with USD 306 billion, so Vietnam's T&G industry offers a great opportunity to the apparel brands and big importers to get the benefit of the high ratio of sewing industry and workforce to produce cheap garments. Vietnamese T&G industry was vastly involved in CMT operations with share of 85% in method of production, and manufacturing was carried-out for agents located in Hong-Kong, China, Taiwan and South Korea, but the industry is being promoted through trade shows and it is expected that the apparel brands will create the direct link with the firms and FOB share will improved by minimizing the role of foreign agents. Majority of the T&G firms in Vietnam had a work-force of 200-500 people, thus making it perfect to handle small and medium quantity orders. As by the expected growth of export value of USD 55bn by 2025, it gives an opportunity to small firms to improve the industry of scale and getting bigger profits.

4. What are the effects of trade agreements of EU and USA with Vietnam and its effect on Vietnamese textiles and clothing industry?

As shown in Table 18, EU and USA were the main export destinations for T&G products of Vietnam in 2013. Vietnam was a member country of Trans-Pacific Strategic Partnership Agreement (TPP) and as shown in 4.5 it is expected that the T&G sector trade with USA will increase with 12-13% per year and will reach USD 30 bn in 2025. EU-Vietnam FTA is likely to be adopted in the end of 2015. After the adoption of EU-Vietnam FTA, T&G products imports from Vietnam to EU will be subjected to 0% import duty, which currently stands at 11.6%. These agreements will result in decrease in decrease of the final cost of products imported from Vietnam in both EU and USA. It is expected that after the adoption of these free trade agreements with Vietnam, T&G products exports will increase by many folds in near future. Also, it is predicted that the textiles and clothing industry in China will relocate to Vietnam to exploit the benefits of these agreements. These agreements will also be beneficial for Vietnam to procure the raw material for its textiles and clothing manufacturing. Vietnam will shift the imports of raw materials from China to TPP-member countries.

5. Competitiveness of strengths and weakness of textiles and garments industry in Vietnam?

As shown in Table 13 Vietnam had a competitive edge for the quality of basic infrastructure in competing developing countries. Also, Vietnam had a political stability, which is very vital for ensuring the FDI and security of future projects. Vietnam had abundant low-cost and skilled labor force producing quality products. Although Vietnamese T&G industry was CMT oriented industry and had underdeveloped design capabilities as well as

it was highly dependent on fabrics imports from foreign countries such as China. But the plans has been laid to increase the localization rate by 70% in 2025 and increase the FOB ratio. This will further improve the capabilities to reduce the manufacturing lead-time, raw material costs and improve the product categories.

6. What are the shipping lead times from Vietnam to EU and Finland?

As shown in Table 21, shipping lead time from Vietnam to Hamburg and Helsinki was 5 days lesser than Shanghai, China. The saving of 5 days will help brands and importers of EU to manage their supply chain management more efficiently and reducing transportation time.

7. What will be the future of textiles and garments industry in next 15 years?

As shown in Figure 45, GDP per capita spending is projected to increase in China from spending of USD 109 in 2012 to USD 377 in 2025. The textile and garments producers will tend to produce for the local population, which will provide a great opportunity to developing economies to increase their share in T&G sector exports to developed countries. As discussed in Figure 47, the Chinese share in global exports of T&G products will reach USD 1700 billion in 2025, with the decrease in Chinese share. The decline in Chinese share in global textile and apparel trade will generate an opportunity for the manufacturing of other countries. Bangladesh and Vietnam will be the important countries to benefit from this change

5.4 Conclusion

The research concentrated on the relocation of fashion manufacturing from China to Vietnam. The research problems of this thesis were the benefit of Vietnam in terms of cost of production, labor cost, Vietnamese Govt. policies and laws, infrastructure, structure and orientation of Vietnamese textile industry, trade agreements, strength and weakness, shipping and logistics and future of Vietnamese Textile and Clothing industry. All these factors were discussed based on the data published by several organization worldwide. With the help of all data, it was possible to understand the current situation of Vietnamese textiles and garments industry.

It is very important to understand the overall situation of the global textiles and clothing industry, as well as trends and future challenges to predict the future and establish strategies for sustainable business. It has been noticed that the T&G industry is highly labor oriented industry and labor cost is the most important factor in determining the final cost of product. In last 25 years, textiles and garments manufacturing has been relocated itself from developed countries to low-cost manufacturing countries in Asia, especially China. China has emerged the single largest exporter of textile and apparel sector with 37% share in total export value of global textile and garments products trade. In future, labor cost, increase of income, and raw material availability will determine the relocation of the industry. Now brands and large importers of textiles and garments require more and more input of suppliers in supply-chain model to overcome the long lead times for the delivery of textiles and garments products. Europe has moved to second position in terms of export value of textiles and apparel products and was the biggest importer of textiles and apparel products. European brands and retailers are more focusing on selling, supply chain and marketing activities and manufacturing will further move to low-cost manufacturing industries. Finland is also following the current trend of textiles and apparel sector which is being practiced in Europe. Clothing products makes up 73 percent of total imports of textile and apparel products, so it makes it very important for Finnish brands and retailers to focus on supply and sourcing from foreign countries. China was the largest exporter of textiles and garments products to Finland, as labor cost in China is increasing and it will put more pressure on the price of final product in future. So, Finnish brands and retailers have to look for the alternate to China for the low-cost products and sustainable business.

Vietnam has emerged as the second largest garments exporter to the world after China. Vietnam achieved the highest growth rate in its GDP after China. Thanks to the policies and laws of government of Vietnam which encourages foreign investment in its country as well as better basic infrastructure among developing countries, investment incentives, low taxes and low-labor cost that Vietnam was successful in attracting a large chunk of foreign direct investment. Textiles and garments sector is the second largest exporter of the Vietnam's export to the world. It is mostly composed of small and medium enterprises with more than 85% of enterprises are associated with sewing operations producing jack-

ets, shirts and trousers. Raw materials and fabrics are mostly imported from China, however, localization rate will be improved from 50% to 70% in 2018 and also adoption of TPP will enable Vietnam to shift its imports to TPP member countries. TPP and EU-Vietnam will be most likely be adopted in 2015 which will bring the Vietnamese products to USA and EU with import duty to 0%. In a nut-shell, low-labor cost, competitive basic infrastructure, and attractive incentives by the govt. of Vietnam and free trade agreements (TPP and EU-Vietnam FTA) were the basic factors which relocated the textiles and garments manufacturing from China to Vietnam.

In my opinion this project turned out well compared to the set objectives. The factors contributing the relocation of fashion manufacturing from China to Vietnam were mapped down. Recommendations have been made to the Finnish brands and retailers to exploit the benefit of Vietnam as a source of low cost manufacturing and sourcing of textiles and garments products. It is expected that the recommendations made in thesis will be beneficial for Finnish brands and retailers to establish future goals and targets for lost cost products sourcing and finding an alternate source for the current and future challenges associated with sourcing from China.

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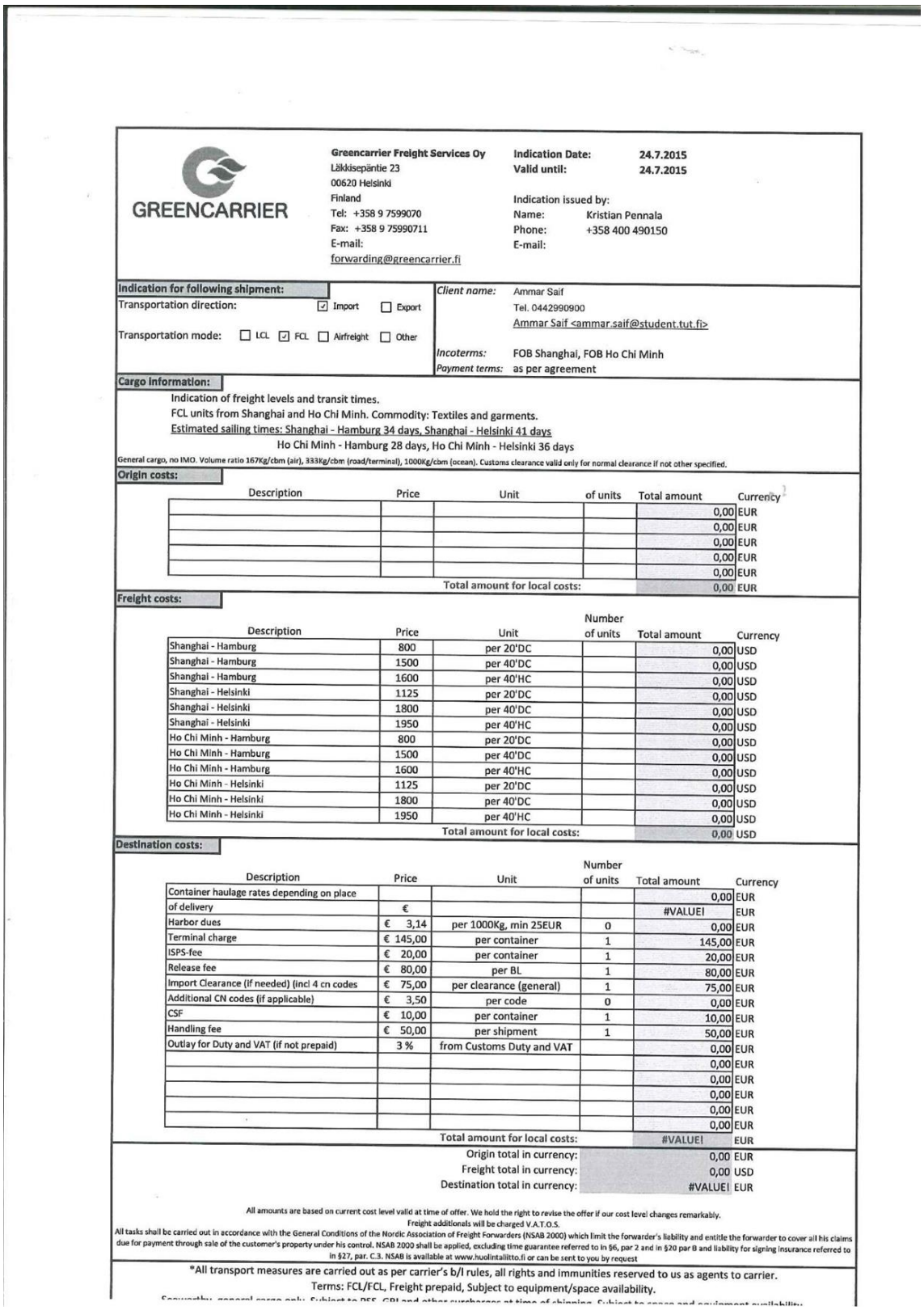
APPENDIX:



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Indication Date: 24.7.2015
Valid until: 24.7.2015

Indication issued by:
Name: Kristian Pennala
Phone: +358 400 490150
E-mail:

Indication for following shipment:
Transportation direction: ☑ Import ☐ Export
Transportation mode: ☐ LCL ☑ FCL ☐ Airfreight ☐ Other

Client name: Ammar Saif
Tel. 0442990900
Ammar Saif <ammar.saif@student.tut.fi>
Incoterms: FOB Shanghai, FOB Ho Chi Minh
Payment terms: as per agreement

Cargo information:
Indication of freight levels and transit times.
FCL units from Shanghai and Ho Chi Minh. Commodity: Textiles and garments.
Estimated sailing times: Shanghai - Hamburg 34 days, Shanghai - Helsinki 41 days
Ho Chi Minh - Hamburg 28 days, Ho Chi Minh - Helsinki 36 days
General cargo, no IMO. Volume ratio 167Kg/cbm (air), 333Kg/cbm (road/terminal), 1000Kg/cbm (ocean). Customs clearance valid only for normal clearance if not other specified.

Origin costs:

Description	Price	Unit	of units	Total amount	Currency
				0,00	EUR
				0,00	EUR
				0,00	EUR
				0,00	EUR
				0,00	EUR
		Total amount for local costs:		0,00	EUR

Freight costs:

Description	Price	Unit	Number of units	Total amount	Currency
Shanghai - Hamburg	800	per 20'DC		0,00	USD
Shanghai - Hamburg	1500	per 40'DC		0,00	USD
Shanghai - Hamburg	1600	per 40'HC		0,00	USD
Shanghai - Helsinki	1125	per 20'DC		0,00	USD
Shanghai - Helsinki	1800	per 40'DC		0,00	USD
Shanghai - Helsinki	1950	per 40'HC		0,00	USD
Ho Chi Minh - Hamburg	800	per 20'DC		0,00	USD
Ho Chi Minh - Hamburg	1500	per 40'DC		0,00	USD
Ho Chi Minh - Hamburg	1600	per 40'HC		0,00	USD
Ho Chi Minh - Helsinki	1125	per 20'DC		0,00	USD
Ho Chi Minh - Helsinki	1800	per 40'DC		0,00	USD
Ho Chi Minh - Helsinki	1950	per 40'HC		0,00	USD
		Total amount for local costs:		0,00	USD

Destination costs:

Description	Price	Unit	Number of units	Total amount	Currency
Container haulage rates depending on place				0,00	EUR
of delivery	€			#VALUE!	EUR
Harbor dues	€ 3,14	per 1000Kg, min 25EUR	0	0,00	EUR
Terminal charge	€ 145,00	per container	1	145,00	EUR
ISPS-fee	€ 20,00	per container	1	20,00	EUR
Release fee	€ 80,00	per BL	1	80,00	EUR
Import Clearance (if needed) (incl 4 cn codes	€ 75,00	per clearance (general)	1	75,00	EUR
Additional CN codes (if applicable)	€ 3,50	per code	0	0,00	EUR
CSF	€ 10,00	per container	1	10,00	EUR
Handling fee	€ 50,00	per shipment	1	50,00	EUR
Outlay for Duty and VAT (if not prepaid)	3 %	from Customs Duty and VAT		0,00	EUR
				0,00	EUR
				0,00	EUR
				0,00	EUR
				0,00	EUR
				0,00	EUR
		Total amount for local costs:		#VALUE!	EUR

Origin total in currency:	0,00	EUR
Freight total in currency:	0,00	USD
Destination total in currency:	#VALUE!	EUR

All amounts are based on current cost level valid at time of offer. We hold the right to revise the offer if our cost level changes remarkably.
Freight additionals will be charged V.A.T.O.S.
All tasks shall be carried out in accordance with the General Conditions of the Nordic Association of Freight Forwarders (NSAB 2000) which limit the forwarder's liability and entitle the forwarder to cover all his claims due for payment through sale of the customer's property under his control. NSAB 2000 shall be applied, excluding time guarantee referred to in §6, par 2 and in §20 par B and liability for signing insurance referred to in §27, par. C.3. NSAB is available at www.huolintaliitto.fi or can be sent to you by request

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Terms: FCL/FCL, Freight prepaid, Subject to equipment/space availability.
Seaworthy, general cargo only. Subject to BSF, CRI and other surcharges at time of shipping. Subject to space and equipment availability.